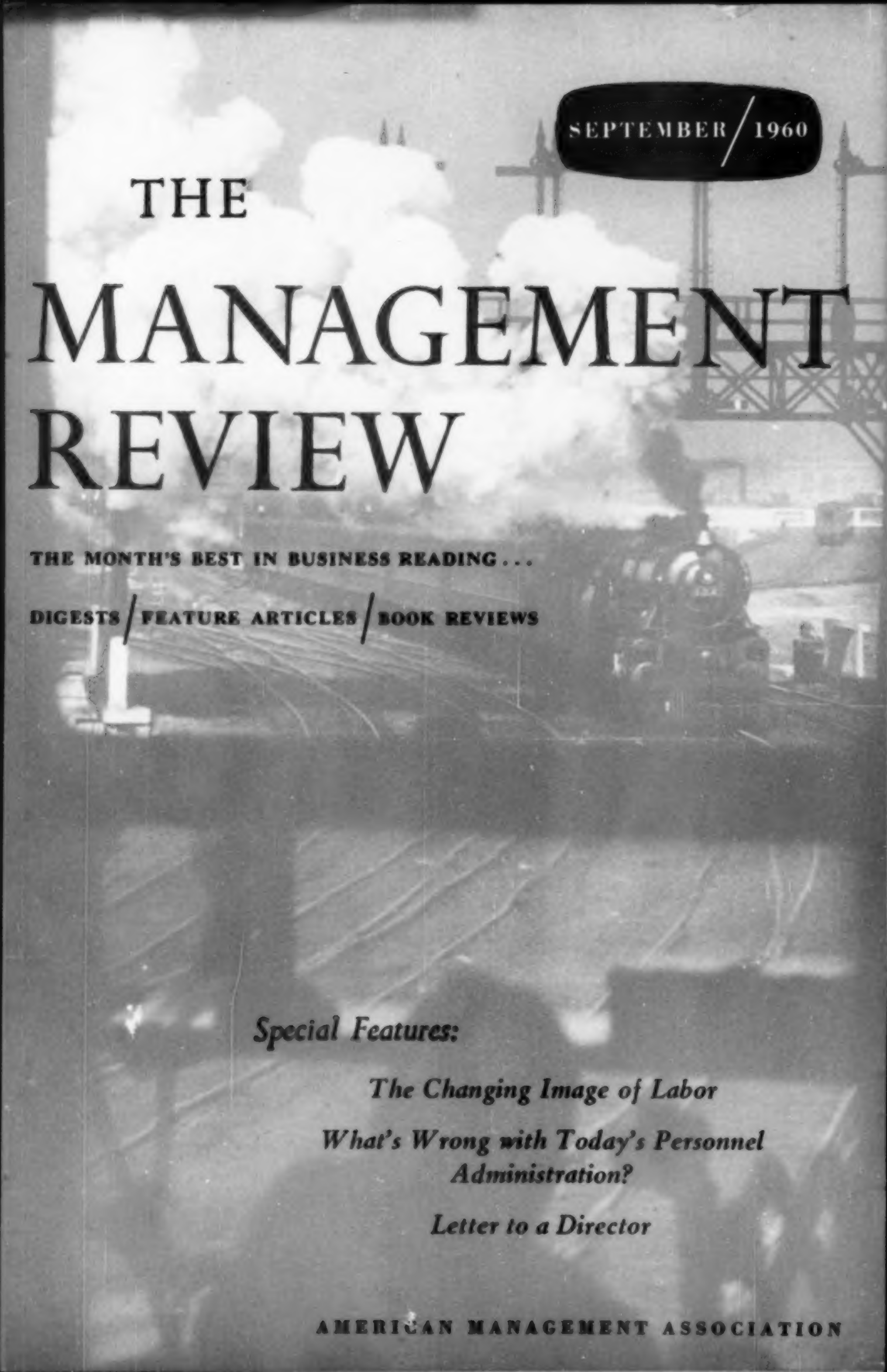

SEPTEMBER / 1960

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in this issue . . .

- **The Changing Image of Labor.** Labor's image in the public eye has undergone some profound changes since the thirties, when it enjoyed wide support as the defender of "the little people." Today, labor is not only recognized as big business, but the sharp practices of some unions and the unsavory reputation of certain union leaders have rubbed off to some extent on the labor movement as a whole. In this month's opening feature, JAMES M. BLACK examines the problems labor is facing today—problems of waning public support, serious membership losses within the blue-collar ranks, and continuing apathy on the part of the thousands of unorganized white-collar workers it had predicted would be carrying union cards by 1960.

- **Directors—In Name or In Fact?** What are the board of directors' responsibilities to management, employees, customers, and the public at large? WAYNE BROEHL's open letter to a mythical director (page 9) provides a useful perspective on some of the questions that determine whether the board will be a vital guiding force in the company—or simply a rubber stamp for a strong chief executive.

- **What's Wrong with Personnel Administration?** Plenty, in some companies, suggests S. VINCENT WILKING (page 16). His article considers the reasons why the personnel department is too often relegated to mere custodial duties and occasional fire-fighting activities, and describes the conditions that are essential if it is to assume more active responsibility in company planning and policy making. (Line executives who would rather *not* see this come about will find some helpful guides in this month's cartoon feature, "How to Undercut the Personnel Department," page 25.)

—THE EDITORS

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BACK IN THE DAYS OF THE SILENT MOVIES, dramas were played straight. The hero, be he knight in armor, wholesome hometown boy, or dashing cowboy, was clear of brow and noble of demeanor. You didn't need a psychology textbook to spot the villain, either—his treachery, cowardice, and baseness were readily apparent, even to the most inexperienced theatergoer. Good and evil were as black and white as the pictures that flickered on the silver screen.

That simple world of right and wrong has long since vanished. None of the people who inhabit the wide screens of today's theaters

The Changing Image of Labor

■ *James Menzies Black*

are all good or all bad. Heroes have their weaknesses, and villains are guilty with an explanation.

American labor occupies approximately the same position in current public opinion as the modern clay-footed movie hero or his opposite number, the qualified villain in whom "badness" ekes out an eye-lash victory over "goodness." People look on unions with mixed emotions.

This is a far cry from the days of the thirties when politicians first discovered the vote-getting appeal of glorifying the "common man" and intellectuals took up arms for the downtrodden workers.

In that era, anybody who opposed their holy crusade was not only bad, but probably, for the sake of society, should be hustled off to the tumbrils. Unions were the champions of the "little people"—remember them?—and any methods, including sit-down strikes, mass picketing, or a handful of sand in an opponent's gas tank, were considered a proper means of securing a highly desirable end.

Now the image of labor is changing, as the public sees labor's "image-makers" from a different perspective. In the thirties, Walter Reuther was a vigorous young man with a mission and Jim Carey was a molten-tongued social reformer. Presidents "cleared it with Sidney" (Hillman) before they okayed a running mate, and it was freely forecast that a CIO brand of socialism would overtake faltering free enterprise in the not-too-distant future.

Today, the real goals of the labor movement have been achieved. Abuses of power have been corrected, management has become "enlightened," labor is enjoying an unprecedentedly high standard of living, and no one—least of all the worker—considers himself a "common man." Walter Reuther still retains tremendous power, political and economic; but the biting edge of his offensive against what he thinks of as the vested interests has been blunted by prosperity. Jim Carey, with his antique, class-conscious oratory, is a mildly absurd figure on the modern scene; John L. Lewis, undoubtedly the greatest single influence in labor since Samuel Gompers, has retired; and George Meaney has his hands full holding together the feuding factions of the "unified" labor movement.

A BLIGHT ON LABOR'S IMAGE

Of course, we cannot forget the ubiquitous Jimmy Hoffa, who heads the outcast but rich and carefree Teamsters. Mr. Hoffa, the present incumbent in a position that has been distinguished by such champions of the people as the legally harassed Dave Beck, casts a fairly vivid image himself. His appearances as the featured star in televised Senate investigations have hardly won him a reputation as a do-gooder, and his supporting players are not men that you would care to meet head-on in a dark alley.

Although the leaders of the AFL-CIO have attempted to disassociate themselves from Mr. Hoffa, they haven't been entirely successful. The more sophisticated citizenry understand that, while

respectable union leaders openly proclaim their disapproval of Hoffa and condemn him as a primitive, anachronistic force in labor, they must still do business with him, especially when the support of the Teamsters is required to assure the success of a work stoppage.

But because Hoffa represents power, not a system of philosophy—organized opportunism, not a social concept—he can exist only as long as he is successful. The forces arrayed against him are strong and determined to pull him down, and the chances are overwhelming that they will be successful in doing so. Hoffa himself is a temporary phenomenon of simply topical importance.

It is, in any event, enlightening for management to study the philosophy of a society that made his success not only possible but inevitable. Hoffa is the tag-end heir of the depression-born social theory that unions were good simply because they were unions, and people who opposed unions were bad simply because they were against them. This line of reasoning was widely prevalent, and it served as a kind of shield behind which Dave Beck built up the power of the Teamsters—now in the hands of James J. Hoffa. This rationale, coupled with the economic problems of the depression, established a political climate made to order for the hardbitten Teamsters to rake in the cash.

The fact that Reuther, Carey, and the other critics of Teamster tactics within labor itself were singularly quiet about them until the last few years might lead a detached observer to question the sincerity of their changed opinion and attribute it to a change in public attitudes rather than to a change in convictions. This is probably incorrect. Undoubtedly welfare-minded, the leaders of the CIO faction of the AFL-CIO are genuinely disturbed by the machinations of the Teamsters. On the other hand, condemnation of the Teamsters constitutes a threat to their own progress: Laws directed at the Teamsters apply also to them; public indignation at the gangsterism of the Teamsters is likely to include them. No wonder their feelings are mixed.

WHAT'S HAPPENING TO LABOR

The leaders of labor are disturbed these days—and with good reason. Union membership is dropping. Their influence is declining. The bright dreams of 1955 when labor joined its two great wings—

the AFL and the CIO—in what was to be giant pincer movement to organize everybody not yet organized has faded into a sad, nostalgic glow. Union membership is figured at about 13½ million, a sharp statistical reminder that its growth has not yet kept pace with the growth of the working force. Today, approximately six out of every ten employees wear no union buttons and, worst of all from the labor point of view, don't appear particularly interested in acquiring one. Current NLRB figures show that when a union sends its organizers to offer brotherhood to the employees of a non-union plant, they stand less than a 60 per cent chance of having it accepted. When you remember that back in 1948, hardly 12 years ago, an organizational drive was turned back only one time in ten, and when you keep in mind the number of tiny plants that offer small opposition or none at all to the union effort, this figure is all the more significant. Furthermore, the number of decertification elections, though still small, has risen noticeably.

Of course, labor blames management for much of its trouble, but this is an evasion of its real problem. It is true that companies have smartened up. Professional management, whether its plant is unionized or not, generally practices enlightened employee relations and makes certain that its wages, fringe benefits, and employee policies conform to a sound industrial standard. This means that an organizer no longer has the lever of worker discontent to lift his arguments off the ground. Moreover, employees themselves are somewhat leery of unions. They are better educated, more sophisticated, and see no particular advantage in placing their destiny in the hands of a union that may involve them in strikes and other unpleasantness.

"We make as much money, have just as many holidays, and our vacations are just as long as employees in organized shops. Our pension plans and insurance protection are quite as good. So what's in it for us?" they question.

WHITE-COLLAR HOLDOUTS

There is another factor that is an important cause of labor's current dilemma: Technology is changing the work force. The white-collar workers outnumber their shop associates. Also, there is an increasing number of technicians and highly skilled employees on

(*Continued on page* 76)

■ *Wayne G. Broehl, Jr.*
Professor of Business
Amos Tuck School
of Business Administration

Letter TO A DIRECTOR

DEAR GEORGE:

Your letter concerning your directorship at the National Company certainly poses a set of provocative questions. Because I can hear you saying, "Let's cut out the preliminaries," I will get right down to business.

The problems you have posed all seem to hinge, in greater or less degree, on the issue of the independence of the board. This issue is particularly thorny at National, since Len is not only president, but majority stockholder as well; I can assure you, however, that it is an issue that arises in every company that has a strong chief executive officer.

More specifically, your problems could be stated in the form of five questions: (1) Can and should the board curb what it considers to be overambitious plans of the company president? (2) Is it advisable for a board member to act in a consulting capacity to assist an operating department of the company? (3) Is the board responsible

for eliminating its own deadwood? (4) To what extent should the board set compensation policies? (5) Considering the pressures from management, stockholders, employees, customers, and other interest groups, where does the board's chief responsibility lie?

These aren't easy questions to answer, but I shall do my best, if not to solve them, at least to give you the benefit of another perspective on them.

LEN IS A DYNAMIC and forceful president—all of you on the board must experience sheer pleasure working with him. But your concern about some of the sensitive operating relationships with him is very real. I am particularly interested in your comment that the board seems unable—or at least unwilling—to apply realistic brakes to some of his recent plans. Len has the operating executive's penchant for wanting to move rapidly—and I know you share much of this optimism. But the director's job is not alone that of nurturing and affirming management's plans, but also of cautioning—even of denying—those plans that may overextend the firm's real capacities. I wholeheartedly agree with you that the board's role is not alone to "conserve" assets but also to put them to fruitful use. I am impressed, for example, by the outlook of your fellow board member from the bank—his positive and management-oriented outlook certainly demolishes the old stereotype of the "conservative banker" that was raised when his appointment was considered. There have been too-frequent examples of "stand-pat" attitudes by certain outside board members in other corporations, as attested by some of the recent proxy contests.

Nevertheless, you pose a serious question when you cite the recent cases of the board's affirming Len's plans with private misgivings. True, he is the dominant stockholder—it is "Len's company." But are you correct in assuming that this requires you to treat him differently than if he were exclusively a professional manager? Mustn't you look at Len's position through two sets of glasses? As owner, he has every right—legal and operational—to hold his stock, vote it as he sees fit, even to dispose of it as he wishes. But you must clearly distinguish this ownership function from his second function with the firm—that of operating chief executive. Here, again, he has the legal right to call the shots—with a flat

majority of the stock he can even vote you all off the board, if he desires. But mustn't you adopt for yourself the thesis that *in an operational sense* Len must be expected to measure up to the top executive job, just as if he were a professional manager? The company has now hit the hundred-million mark in sales. Its influence touches thousands of people—employees, suppliers, customers, stockholders. Should not these interest groups expect just as well-run a company from Len as they have every right to expect from a professionally run corporation?

Unmistakably, Len himself must recognize the subtle but crucial distinction between ownership and operating rights. Here, though, you (and the rest of the board) must take responsibility for Len's "training" in board-president relations. If you can develop with him an understanding that the board has the duty not only to choose a chief executive initially, but also to continue to "choose" him every day of his operating career, you will help him to resolve one of the great paradoxes of the owner-manager situation.

It would be helpful, both to Len and to the board, if Len *the executive* were made to feel that he must justify his plans or face denial of *or even severance from* his operating responsibility. I am not suggesting that you would ever fire Len; his capabilities are unquestioned. I am troubled, though, by his expressed hope that his son will some day succeed him as president. Len, Jr., is a fine young man, and he will probably grow in stature as he takes greater responsibility in the sales division. He might well be the outstanding candidate when Len decides to step down—but that is a question for the board to decide. As majority stockholder, Len will undoubtedly have a strong voice in the ultimate selection; as president, however, it is not within his scope of authority, and it would seem wise to help Len appreciate the inherent ambivalence of his position.

THE SECOND QUESTION also impinges directly on this issue of board independence. The sales problems you face in your own company are very similar to those of Len's firm—even though your products are quite dissimilar. You mention that Len's vice president of sales has appeared before the board several times for special presentations and now wishes to work more directly with you on certain common problems. Obviously, Len would

have to approve of such a relationship, and I have no doubt that he would if you wanted him to. However, I would advise against this, even assuming such approval. No doubt you would help the sales division substantially by such consultation. But at the same time—wearing two hats—you would be compromising your independence as a board member. I am sure you already know the legal limitations imposed on a director in these types of informal relationships with a company. But I am equally troubled by the operational implications, for you would be in the curious position of being a resource who is asked to check himself on his own aid. My point here is equally applicable to your relationship with Len. You are in one sense a staff specialist advising Len on his problems. But you are primarily his "auditor," who will react to his plans objectively and *independently*. Unless you guard your independence, you will have abdicated your most fundamental responsibility.

YOUR PROBLEMS of deadwood on the board are not easily solvable. Unfortunately, election of a director usually has an eternality about it that precludes any "early retirement." This is a curious concept for the American corporation to maintain—certainly this same corporation would not look at any executive or operating appointment this way. This problem is compounded by the fact that very little is available in the way of devices to measure the effectiveness of the board itself. Generally, we are thrown back to using the measuring stick adopted for the corporation itself. I think probably some corporations are effective *in spite of their boards*. But how to find this out?

Practically, what can you do to shore up the inefficiency of some of your board members? Frankly, you'll have to engage in a long-term educational effort. In Len's company, each of you initially received your charge of responsibilities from Len himself. This is probably as it should be. But the board member's continuing education and training should come not only from operating management—it must come also from his fellow directors. You have a legal and operational community of interest that requires you to be knowledgeable not only about your corporation, but also about each other. Informal contacts between board meetings would not only be excellent for coordination and communication, but would also help estab-

lish the notion of the board as independent auditors. Such contacts should not disturb Len if everybody understands the central thesis.

Incidentally, if I were you, I'd continue to press for a fixed retirement age for your board members. You will also want to consider whether this limit should be the same as for the company's operating officials. If a uniform policy is adopted, I realize that it will mean early retirement for two of your most productive members. But I feel, on balance, that this is less dangerous than locking in what I'll call an "elderly" viewpoint. We all dislike talking about senility—or even old age without senility. But age sometimes does curious things to us—things that are evident not even to others, much less to ourselves. This point will raise some hackles, but it is a meaningful one for the board to discuss.

THIS NOTION of board independence bears directly on your next question. I have seen your executive salary structure, and the total package certainly compares well with the usual yardsticks. But I think you are right about its internal consistency. The problem of Len's salary is particularly sticky. Clearly, his recommendations for both his own salary and those of the rest of the management group carry almost unchallenged weight. Equally clearly, he is setting his own salary at a comparatively low level partly because of his personal tax situation. I sympathize with his evident needs here—it would be hard to ask him to waive any of these concerns. But I think I could make a solid case—at least theoretically—for clearly separating personal from corporate needs. The important thing is to make him realize that *he* views his salary from the standpoints of both corporation and personal objectives, but the rest of the management group sees it only in a corporate sense. Your feeling that he has set it too low in these management terms, and therefore has tended to depress the whole structure, supports this point. I would press strongly for a salary committee for the board, composed only of its outside members. And I would do this not on the basis that the committee would substantially reject Len's proposals, but rather because it would relieve Len of the practically impossible task of trying to be only the chief executive when he is actually both president *and* owner. Frankly, I do not think any of us can be completely objective on issues that touch our pocketbooks.

Incidentally, this same question is germane to dividend policy. While the company's dividend record has been outstanding in recent years, Len's dual roles of owner and president intrude here, too. Again, I think the point is clear—you must show Len how he'll benefit from having an independent group relieve him of an illogical and unfair task.

LEST YOU ACCUSE ME of structuring your role exclusively as representative of the minority stockholder, let me re-emphasize other points that you must consider. I spoke earlier of the company's mushrooming responsibilities to employees, suppliers, customers, and other interest groups. How adequately does your board consider these multiple pressures? Many are direct, and you recognize them automatically in your operating decisions. Many more, though, are indirect, even ephemeral. I suspect that operating demands often take overwhelming preference over these others. This is mainly a question of balance, and I merely suggest that the board be sure this balance is met.

I am reminded here of a provocative structural device suggested by Beardsley Ruml a few years ago to redress possible imbalances. He suggested that board members agree among themselves to adopt informal roles as "representatives" of each of these groups—one presenting the presumed viewpoint of the stockholder, another of the suppliers, a third of the employees, and so forth. There would not—and there should not—be any direct liaison between the board member and his "constituency." But as an essentially internal device to assure representation of all the groups concerned, it is very promising.

This brings me to my final point—and a rather speculative position. I hid one of Ruml's representatives from you—and the one I hid may well be the most important. This is the public. Now, the notion that the corporation hold serious responsibilities to society as a whole is nothing new. While these responsibilities are difficult to quantify, they are nevertheless real and must be met. You and your colleagues faced them directly last year when you voted to contribute to the "Higher Education Fund."

But recently a new twist has been added. We are familiar with Galbraith's thesis, in *The Affluent Society*, that the corporation seems

to need a built-in "dependence effort" to push human wants along fast enough to absorb its fantastic production potential. We are also familiar with Vance Packard's attitude toward the "hidden persuaders." And all of us are aware of serious implications in the recent quiz scandals. I am going to suggest that within this complex of public issues is a central thread of far-reaching import for the corporation: Implied in them all is the notion that the corporation has come unknowingly to a position where it sets American values. Analysts agree that much of the current materialism and stress on transitory values are rooted in society as a whole, but it is postulated that society arrived at this stage by being pushed from behind by the sheer productive and distributive genius of American business.

IF THE THOUGHT has even a grain of truth, it must frighten every board member. For it puts him up on a pedestal of responsibility, at best as a judge, and at worst as a manipulator. And this problem is serious. Corporate decisions, when cumulated, combine to influence American tastes profoundly. In the process, they may also deeply affect more basic values. Your decisions on product lines, on plant location, even on the height of executive salaries have overtones of public impact that go far beyond their internal implications. The argument may smack of abstract theory, but it deserves honest consideration by the board. ♦

What's Wrong with Today's Personnel

■ *S. Vincent Wilking*
Vice President
Barrington Associates, Inc.

PERSONNEL ADMINISTRATION is still something of a Johnny-come-lately compared with the old, accepted business functions. Since it is not so obviously linked to profits or survival as are sales or production, its standing in industry has often been uncertain and its course unclear.

Sometimes the value of personnel administration is "discovered" only when the very survival of the business is threatened. During the war years, for example, competent employees were hard to get, and their compensation became a problem of great concern because of the government freeze on wage and salary rates. With the difficulty of obtaining required labor and, once acquired, the equal

Administration?

Personnel departments with well-defined goals and principles are making a substantial contribution in many companies— but in others, the personnel department plays a minor role because of top management indifference and its own lack of basic purpose . . .

difficulty of holding it with appropriate financial incentives, the survival of many businesses was in jeopardy. Because complicated formulas devised by government specialists provided soft spots in the wage-and-salary glacier that could be successfully probed only by specialists in job evaluation, a competent "personnel man" was a jewel of great value, and his prestige and organizational status were greatly enhanced. But he was recognized as important only as long as the crisis existed, and when conditions returned to normal, the personnel function frequently returned to its second-class status in the organization.

Today, the status of the personnel man varies widely from com-

pany to company. In one company, personnel management sits at the right hand of general management; in another, it is a function subordinate to a plant manager.

In an attempt to enhance the value of the personnel department in the eyes of top management, some practitioners of personnel administration have been busily engaged in the development of a multitude of techniques, devices, and gimmicks. As a result, an objective outsider might observe that most personnel people are highly adept at developing or executing techniques, but relatively few have sound basic concepts, or even opinions, about their place in the total business organization or their role in helping to attain the objectives of the enterprise.

The personnel men with the highest salaries and the greatest prestige are those who function mainly in the area of labor relations and union negotiations, in which a real and immediate threat to profits or even to the survival of the business is present. The rest of the personnel function is often limited to the hiring of hourly workers and clerks—never to the recruitment and selection of top or key management personnel—and to such specific areas as supervisory training. People with very little or no specialized training feel that they are competent to become personnel managers, and, in fact, top personnel men at the vice-presidential level are often appointed from other areas of specialization (marketing, engineering, etc.), with no prior training or even experience in personnel administration.

THE ROLE OF PERSONNEL MANAGEMENT

In many companies, personnel people are the last to hear about corporate marketing, production, or research plans and programs, and few participate in the determination of over-all company objectives and in organization planning. In the eyes of much of general management, personnel management involves people-tinkering in highly specific and restricted areas. It is not considered a unified, comprehensive function crucial to the welfare of the business, but a minor function to be drawn upon when needed and then relegated to purely custodial duties.

In short, the same company that would never try to operate on a day-to-day basis without sales, production, or financial participa-

tion—and without short- and long-range plans for each of these well-established functions—often takes its personnel problems on a purely *ad hoc* basis.

This situation is not entirely the fault of general management, nor can the practitioners in other functional areas of business be criticized for garnering justified positions of influence. A great deal of the responsibility for the present state of personnel administration lies with personnel people.

For one thing, many people engaged in personnel work are deficient in training, native intelligence, and knowledge of the principles of business administration. Because their training and experience have been in fragmentary areas of personnel, they have become specialists in the worst sense of that word, and they cannot gain rapport with general management.

In addition, there has been too much "busyness" in personnel work and far too little thinking, planning, and philosophizing. If one is too busy picking up apples that have fallen, he is unlikely ever to derive a Newtonian principle from the observation of an apple's fall.

Of course, general management has also had much to do with relegating the personnel function to a minor role. Even the personnel people who have been inclined to think and are equipped to do so have often been hamstrung by managements that keep them busy on too-specific problems: "How can we select better filament inspectors?" "How can we recruit the top man in the college engineering class?" "How can we cut down on paid grievance time?"

IS PERSONNEL NECESSARY?

Because everyone deals daily with people more or less successfully, there is a natural tendency to fail to see the need for specialized staff assistance in that area. One exception, of course, is labor relations—because most executives consider the give-and-take of negotiation a heavy drain on their time and energy, and because they dislike the atmosphere of acrimony and dispute that frequently surrounds contract negotiations. But when it comes to the relatively pleasant tasks of selecting people (particularly key people), compensating people, counseling people, and planning the use of people—these are all familiar areas to the manager of a business. He is

usually sure that he can perform these functions better and more quickly without staff assistance, and only when he is short of time or when the problems seem unimportant is he willing to delegate them to personnel people.

This being the case, the chief executive often feels no need for high-powered, intelligent, aggressive, high-salaried people in the personnel department. As a result, he pays relatively low salaries, obtains relatively mediocre people, and, not surprisingly, finds that they can handle only relatively routine assignments. Since he is reserving to himself the tough tasks, this, from his point of view, is not serious—so he perpetuates the second-class status of personnel work in his organization. Only when real crises arise—the threat of union organization, a latent rebellion about rates of pay, a shortage of labor, or a marked deficiency in supervisory skill—does the manager turn to his personnel department. And he often finds that the personnel man is incapable of rising to the occasion. For one thing, the manager hasn't selected a man who could get results in the first place. Then he has failed to keep the personnel man informed about the broad affairs of the business—goals and plans in marketing, production, or finance. Above all, he has never thought out the place and role of personnel administration in the total management organization. It has not been integrated into the total picture the way production, sales, and finance have been. Its status is dubious; its contribution, both potential and actual, has never been defined or evaluated.

PRINCIPLES OF PERSONNEL ADMINISTRATION

In order to get the greatest possible value from the personnel function, it is of primary importance to define the proper place of personnel administration in the business organization. If personnel is to make its full contribution to the business enterprise, it must be guided by a unifying set of principles that can serve to challenge the best of its practitioners. Both top management and personnel executives could well consider the following eight principles of personnel administration as a basis for giving the personnel function direction and attainable, defined goals toward which its techniques and programs can be developed.

1. *The human assets of any company are of great economic*

value; they must be conserved, cultivated, and enhanced if the company is to prosper and grow.

There is nothing startlingly original about this first principle, but its implications are often ignored. The methods and techniques of dealing with people and minimizing interpersonal friction are frequently difficult and time-consuming, and the results are all but impossible to measure accurately. Ordinarily, then, the man in business is inclined to devote his energies, time, and attention to the more tractable problems of finance, production, or marketing, which, while difficult, yield satisfyingly measurable results.

2. *The responsibility for conserving, cultivating, and enhancing these human assets rests with the line organization. The line is responsible and accountable for the effective and enlightened use and treatment of all people in the organization.*

This principle pinpoints initial accountability for the human assets of the enterprise. But it imposes a heavy burden that the

". . . and this is for Social Security and withholding tax."

line is unlikely to carry unless effectively aided. The "enlightened" use and treatment of people implies a degree of expertise and specialization unlikely to be found among members of the average line organization.

3. *In an organization of any size, specialized staff is employed to assist and counsel the line in the execution of many responsibilities. Very important among the specialized staff are the people charged with personnel administration.*

The line organization is charged with the responsibility for carrying out the enterprise's affairs in accordance with the laws of the country, state, and municipality—but it would hardly be willing to do so without the aid of legal counsel. This principle points to a need for assistance similar in kind to the legal counsel if the responsibility for human assets is to be discharged effectively.

4. *The personnel staff is available to counsel and assist the chief executive and his subordinate line executives in the formulation of objectives, plans, policies, procedures, and practices relating to the maximum effective use of the human resources of the organization.*

This fourth principle particularizes the nature of personnel work. It starts not with the microcosm, as did the personnel function originally (hire some hands), but rather with the macrocosm—the entire breadth and scope of the business. Here is an area worthy of challenging the best that a man can give. At no time is the need for specialized assistance in the understanding and utilization of the human resources of business more important than in establishing objectives, making plans to achieve them, developing and staffing the organization, and formulating the policies which will aid in making the organization work effectively and harmoniously toward its goals.

5. *The personnel staff is charged with the responsibility for continuing study, analysis, evaluation, and review of all aspects of the organization's personnel program. This activity should lead to frequent, periodic recommendations to the chief executive and his subordinate officers concerning all aspects of the personnel program.*

The phrase "all aspects of the personnel program" involves the following areas:

a. Organization analysis and development
b. Recruitment, selection, and placement
c. Wage and salary administration
   (including executive compensation)
d. Labor relations
e. Communication
f. Training and education
g. Employee benefits
h. Safety and medical programs
i. Performance appraisal
j. Community relations
k. Reports and controls
l. Personnel research

The application of this list of personnel administration subfunctions should include all levels of the enterprise. It is not limited, for instance, to the factory operation, or to the field sales organization; it is corporate, in both outlook and application.

6. *The personnel staff should be informed of, and should have access to, information concerning plans and activities at all levels and in all functional areas of the company, so it can provide counsel and advice concerning the human-relations aspects involved.*

The rock on which most ambitious personnel programs have foundered is the barrier of silence that surrounds the general management level. When, for example, plans are being made to reassign the field sales force to improve market penetration and maximize the conversion of potential sales to actual sales, it is common to ask the sales manager and, usually, the controller, to participate in such planning. If legal problems are involved, the general counsel is sure to be there. But, even though such a reassignment of salesmen (human resources) is involved, rarely is the personnel administrator invited to the planning sessions. Of course, if there should be grave discontent among salesmen whose compensation has been reduced because they were assigned to new or smaller territories, the personnel man may be called in to save the plan and save the salesmen. But if personnel administration is to make its greatest contribution to the total enterprise it must be involved at the planning stage, and it must be constantly apprised of developments so that it can assess their effect on the human

factors involved. Only in this manner can personnel be expected to operate with maximum effectiveness.

7. *It is the responsibility of the personnel staff to insure that recommendations that are accepted and made official by the line, as well as other approved personnel policies and procedures, are applied equitably and consistently throughout the organization.*

This principle provides for the creative, constructive exercise of delegated authority in the day-to-day implementation of personnel policies and procedures. The manner in which the personnel administrator monitors the policies can do much to insure that the best use is made of the enterprise's human resources. A flexible approach to the enforcement of policy, for example, can do much for the truly equitable enforcement of rules and can contribute to the feeling of good will that is essential to harmonious teamwork.

8. *The personnel staff is responsible for keeping abreast of the philosophies and techniques in its specialized area. It has the fundamental responsibility for innovation and change directed toward raising the productivity and aspiration levels of all individuals in the organization.*

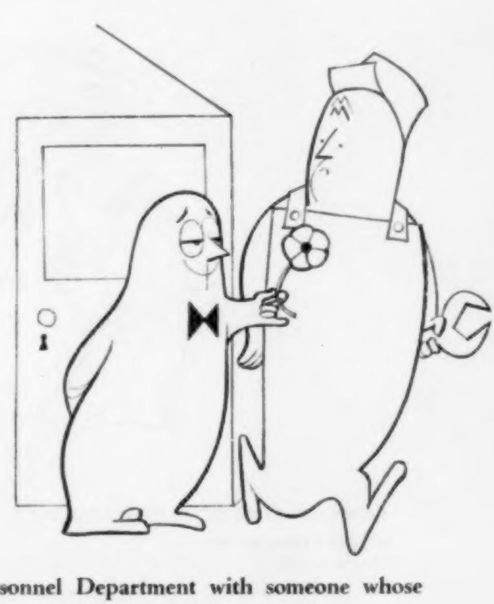
The personnel specialist who increases productivity or raises the aspiration level of any member of management is hard to find these days. The obstacles are far too many to allow this to happen except occasionally, when, by pure force of personality, he succeeds. But given the cooperation of top management, it is the kind of job that the trained personnel administrator can accomplish efficiently, harmoniously, and with a minimum of disruptive human friction.

UTILIZING HUMAN RESOURCES

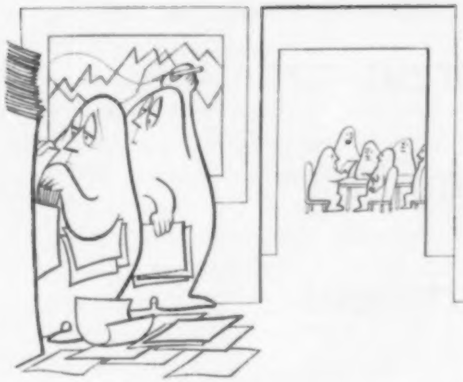
No function of an organization can make its fullest contribution to the enterprise unless it knows where it is going and how it is going to get there. The reason the personnel function is so often neglected today is that such fundamentals have never been established in most companies—or, at least, have never been accorded more than cursory attention. If the principles outlined here are accepted, both by general management and by personnel administrators, there is little doubt that better, more effective, more profitable care will be taken of the human resources of our business organizations. ♦

HOW TO Undercut THE Personnel Department

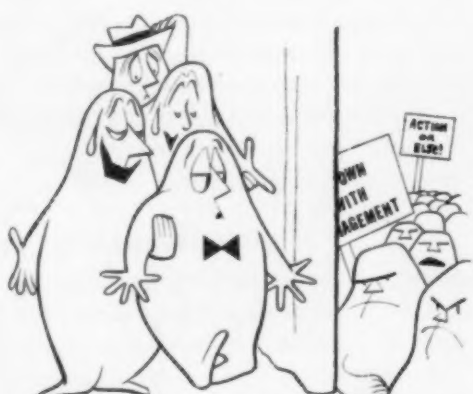
TESTED WAYS TO SABOTAGE ANY COMPANY PERSONNEL PROGRAM



Head the Personnel Department with someone whose main qualification is that he "likes people."

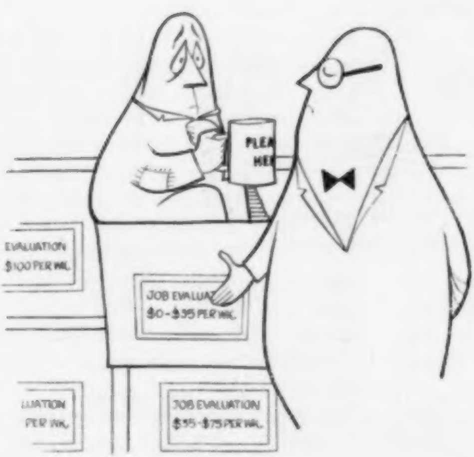


Give the Personnel staff enough busy work, special projects, and gimmicks to keep them from meddling in company affairs.

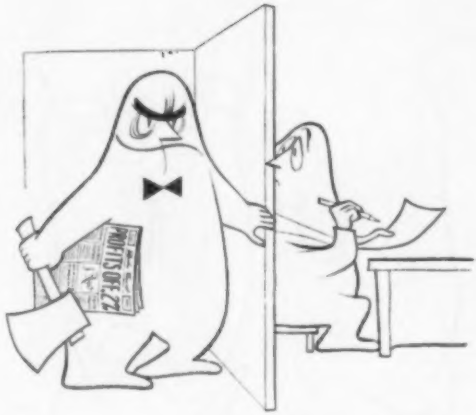


Don't let them in on problems until a real crisis arises.

Do all your recruiting and hiring yourself.

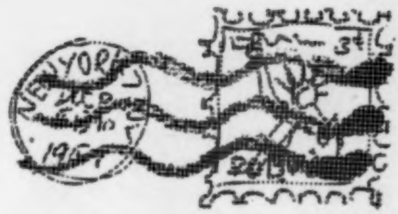


If you've decided not to give a subordinate a salary increase, be sure to blame it on "their" job evaluation system.



Since Personnel is not an income-producing activity, curtail its activities at the first sign of a downswing.

Avoid complications by keeping Personnel out of the know about new plans and activities. ♦



LETTERS TO THE EDITOR

"Obsolete" Executives

To The Editor:

In the June, 1960, issue of The Management Review I was privileged to read Dr. Saul Gellerman's article, "When the Job Outgrows the Man." It is a very comprehensive article, excellently written for such broad coverage in so limited a space, and his points are well taken. However, I sense, though I hope I am mistaken, that the viewpoint taken is an abstract one: that Homo sapiens is as expendable in business as a worn-out tire is on an automobile. A point not covered in this and so many articles of the same nature is the lingering question that gnaws on many an executive's conscience: "Am I my brother's keeper?"

There are undoubtedly times when executives actually have lost their grip—or when they never had one to begin with. But there are other times when deliberate bias is the reason for unseating a capable man. This is not a rare thing, and I have seen it practiced both in government and in private industry. The idea is to force a man out to make way for a favorite—often one who is an extrovert, a good golf player, or a good cocktail bar companion.

In a well-managed company, consideration is given to human values despite obsolescence. All of us age at varying and often disparate rates and consequently drop in efficiency at different times. However, there is a bank of experience available in many of the oldsters that the younger, more agile executives cannot gain in a lifetime of making mistakes and correcting them by themselves. Therefore, the use of these men as consultants—with retirement pay plus a retainer—will prevent loss to a going company at a very economical price.

Frequently the so-called misfit is obsolete only because someone has placed him in a position for which he has no bent or aptitude. This is the employer's fault. Instead of "sacking" the individual, a little trial or investigation can convert a negative condition into a very positive one. In my own work, I have frequently heard upper-level administrators say of an apparently "obsolete" supervisor that he couldn't do this or that job. My return question has always been, "Have you tried him out in the work?" Invariably, the

answer has been "no." This is not making oneself popular—few upper-level administrators care to have their judgments questioned—but I did have a well-disciplined and spirited organization that would get its work done well and accurately and did not hesitate to pitch in whenever an emergency arose. My supervisors knew their jobs, though I had to shift some of them around two or three times to bed them down properly.

One of the saddest things about the "emphasis on youth" attitude in business and government is that young executives, when once entrenched and clothed with authority, tend to associate with their contemporaries and perpetuate their generation by displacing the preceding one as soon as possible. A former Secretary of the Navy made this grave mistake when he directed that the new admirals selected be the younger men. As a result, not only were many combat-trained, capable, and experienced officers tossed out of the Navy by retirement and so lost, but there was a considerable morale drop in the officer ranks.

The long-service executive has made a great contribution to his company. Many organizations figure a return rate on their executives at ten times the individual's salary—money that is reinvested in the future of the company. Striking such an executive from the rolls by any means discredits one of the means or causes for a company's success—and is poor thanks for a lifetime of constructive service.

Perhaps Dr. Gellerman can consider these questions in a future article about the deserving yet obsolete individual whom progress and time are tending to pass by. Is it doing a man a favor to put him out to pasture on charity or social security? Perhaps the real solution in many cases is rehabilitation of the executives who want to eliminate the man whom the job has supposedly outgrown.

HERBERT M. NEUHAUS
China Lake, California

Caste in the Office

TO THE EDITOR:

As a personnel and industrial relations man for the past 24 years, in plants ranging in size from 400 to 4,000 employees, I must protest emphatically against the article from *Modern Office Procedures* that was digested in THE MANAGEMENT REVIEW ("The Office Caste System," by Harrison R. Johnson, July, 1960).

Certainly no firm with a reasonably well-trained personnel manager would subscribe to many of the statements made by the author of this article.

Mr. Johnson quotes one executive: "Caste is essential. Every supervisor at one time or another has to get tough with his subordinates. He has to berate for poor work, discuss salaries, even fire people. He can't do this if he's too friendly with the people under him."

This is just plain hogwash. No supervisor ever finds it necessary to "berate" people for poor work, and to say that a good supervisor can't discipline or fire a person with whom

he is friendly is nonsense. Discipline or discharge of a friend by a supervisor is many times more effective than is discipline or discharge administered by a supervisor who has indicated no personal feeling for anyone working for him. And in the case of the accounting supervisor who permitted two employees to indulge in sloppy and inefficient work, the fault was not that the supervisor "refused to learn where his job began and friendship ended"—the fault was rather with the department head, who made a poor choice in selecting this manager and who used the friendship issue as a convenient cover-up.

Mr. Johnson describes the efforts of one company which planned monthly departmental parties at employees' homes. Certainly, the employees resented such affairs! What employee with any feeling of independence wouldn't feel that the company was imposing on him? No good personnel manager would consider endorsing such a program among people on the same level, let alone among employees on different levels.

Mr. Johnson puts his finger on the real point developed by this survey when he says that "the caste system makes it easier for a new supervisor to escape the burden of old friendships," and later, that it "puts people promptly on different levels and makes discipline easier." With this, I would have to agree—but who ever said that being a supervisor was an "easy" job? Apparently, no one interviewed for this survey was interested in making discipline and the many other important relationships more effective; they were only interested in making them "easier." This country is in sad shape if even our supervisors and managers are only looking for the "easy" way to do things.

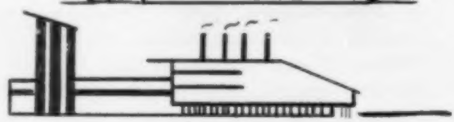
The efforts of some of these companies to influence the activities of their supervisors' wives is going just too far. Because we pay for their husbands' efforts during the work day, we have no right to meddle in their family affairs. What our supervisors or their wives do outside the plant or office is none of our business, as long as they do nothing that reflects badly on the company.

Finally, let me say that a company should select as new supervisors only those individuals who are mature enough to realize that there is a big difference between friendliness and "being one of the boys." The successful supervisor does not refrain from all social contact with subordinates; he does *not* become a snob; he does *not* retreat to an ivory tower. The good supervisor *does* remember to keep his social contacts casual; he *does* try to attend only group affairs when he mingles with his associates; and he *is* careful of what he says when he's "hoisting a few" at the bowling alley. Finally, unless he wants to lose his happy home, he never arouses his wife's anger and scorn by attempting to tell her whom she should or should not have as friends. If he hasn't sense enough to know that, he won't make much of a supervisor, anyway!

Melvin J. Dunklau
Personnel Manager
A. O. Smith Corporation
Granite City Frame Plant
Granite City, Illinois

AMERICAN

BUSINESS



AND

Economic Growth

Condensed from First National City Bank Monthly Letter

"ECONOMIC GROWTH" is the newest magic phrase on the lips of politicians in this election year. But for industry, the idea of growth is old stuff. The record of the 100 largest manufacturing corporations over the last decade offers an excellent picture of the pace-setting role of business enterprise in our nation's economic growth.

For example, the total assets of the 100 largest manufacturing corporations reached $116 billion at the end of 1959, compared with $49 billion in 1949. Total receipts from sales and other sources rose from about $60 billion for the firms on the 1949 list to $128 billion for last year's group. And the number of manufacturers with assets beyond a billion dollars more than doubled between 1949 and 1959—from 12 to 27.

To become a member of the "Hundred Largest Club" in 1949, a cor-

First National City Bank Monthly Letter (August, 1960),
The First National City Bank of New York

poration needed at least $141 million in assets; by 1959, the minimum had grown more than two-and-a-half times to $378 million. As a result, 15 firms slipped out of the list and were replaced by others. On the average, the firms that dropped out expanded 52 per cent during the decade—but even this was not enough to keep pace with the leaders.

The leading firms have gained—and now maintain—their top positions by meeting the changing needs of our nation. Thus, of the 15 companies in the current group that were not on the list a decade ago, six are in aircraft and missiles. On the other hand, three makers of railway equipment fell from the list during the period. A steel company in fast-growing California has joined the group, but another steel firm in the East has dropped out. Of the other companies displaced, seven are producers of foods, beverages, or textiles—items for which demands are growing less rapidly than for other products.

As the 100 largest firms have expanded, they have created more jobs. About five million men and women were on their payrolls last year, compared with slightly over four million for the companies on the 1949 list. Even more striking has been the increase in investment per worker: The average amount of assets per worker grew from $12,200 in 1949 to $20,900 last year.

Much of this investment is embodied in modern plant and automated equipment that makes work easier and, at the same time, more efficient. The value of plant and equipment has almost doubled during the decade: from $5,400 per employee in 1949 to $10,100 in 1959. In 1959 alone, the 100 largest firms invested more than $8 billion in property, plant, and equipment.

Though investment of capital is growing rapidly in practically all lines, some industrial operations require more than others. Topping the list are petroleum, distilling, and tobacco—each with an average of more than $50,000 in assets per employee. For example, oil companies must maintain huge reserves of crude oil and natural gas, as well as expensive refinery plants and stocks of refined products; distillers must keep large stocks for aging in bonded warehouses; and tobacco companies have stores of leaf tobacco for curing and blending.

Assets per employee have more than doubled during the past decade for companies in the steel, automobile, and petroleum industries. The increases were nearly as great in nonferrous metals, distilling, and tires and rubber. On the other hand, assets per employee in the aircraft industry remained low, reflecting the large amount of machinery, plant, and other assets furnished by the government for military work.

A major beneficiary of industrial growth has been the worker. Automation and mechanization have reduced the number of dirty, physically exhausting jobs. At the same time—according to payroll statistics covering about 86 per cent of all workers employed by the 100 largest manufacturers—the average annual compensation of workers last year was more than $6,400. A decade earlier, the figure was $3,500.

The number of shareholders in industry has increased rapidly. Ten years ago, the 100 largest corporations had slightly more than 5 million registered shareholders; the current group has almost 9 million. This figure, of course, overstates the total of individual shareholders, inasmuch as some investors have shares in more than one of the companies on the list. On the other hand, many registered shareholders are trustees or "nominees" who hold shares for a number of individual owners. And—via the spectacular growth of mutual funds, pension funds, and similar institutions over the last decade—there are millions of other individuals who have an indirect interest in these companies. In all, shareholders provide about two-thirds of the total capital invested in the 100 largest firms; various forms of debt account for the remainder.

Despite their rising sales totals, even the biggest corporations are not guaranteed a corresponding rise in earnings. Data on sales and income of the 100 largest manufacturers show that, while the companies are generating more and more income for others, they are able to keep only a small—and shrinking—share for dividends and reinvestment. In 1959, these companies had an average net income of 6.4 cents out of every dollar of revenue, compared with 7.9 cents on every dollar of sales in 1949 —and 1949 was a recession year.

In 1959, more than 93 cents out of every sales dollar earned by the 100 largest companies was paid out to others for materials, wages, taxes, and interest, or charged against depreciation of machinery and plant. The comparable figure for 1949 was slightly more than 92 cents. The relative share paid out by these manufacturers for goods and services from other suppliers has fallen over the decade from 59 cents of each sales dollar in 1949 to 52 cents for the 100 firms last year. Payroll costs, however, took a substantially bigger slice last year: 27.5 cents of the sales dollar, compared to 23.1 cents ten years earlier. Charges for depreciation and depletion were also bigger, reflecting the tremendous volume of new investment over the decade.

As relative net profits or income have declined over the last 10 years, the share paid in government taxes has risen. For the 100 largest manufacturers, total tax payments rose from 6.4 cents of each sales dollar in 1949 to 8.8 cents per dollar last year. Part of this increase is accounted for by the federal government's corporate income tax, which stood at 38 per cent in 1949 but, since the Korean War, has been 52 per cent. Taxes imposed by the various states and municipalities—and foreign governments in the case of firms operating overseas—have also grown. Such levies took only 2.2 cents per sales dollar in 1949, but absorbed 4 cents per dollar of revenue last year.

The owners of the 100 largest firms—the shareholders—receive their dividends only after all other expenses are met. Last year, these dividends came to 3.7 cents out of every sales dollar, compared with 3.9 cents ten years earlier. And this share was achieved by reducing the relative amount retained in these businesses from 4 cents per dollar in 1949 to 2.7 cents last year. ♦

What's ahead in product design?

By Melvin Mandell

Condensed from Dun's Review and Modern Industry

PRODUCT DESIGN—key link in the chain of successful marketing—is going to call for more insight, talent, and executive decisiveness in the coming decade than ever before. If it is ill-conceived, no saturation ad campaign, no widespread distribution network, no hard sell can save the product from extinction.

To learn the ground rules that will govern successful product design in the years ahead, *Dun's Review* interviewed some of the nation's top designers. One trend that they all emphasized is the growing sophistication of the customer. The consumer is already wise in the ways of purchasing: In today's replacement economy, customers are buying certain types of product for the second, third, or even fourth time. Tomorrow's customer will demand simpler, sturdier products which are easy to work, clean, and repair. As Raymond Loewy puts it, "There is increasing resentment of gadgets, systems, and devices that do not compensate in utility or service for the irritations they arouse."

The appeal of a product as a mere status symbol should decline, the designers predict, and they offer two reasons. One is that the more knowledgeable customer will buy quality and function instead of "prestige." As a result, there will be less need for annual model changes—a development which should benefit manufacturers, since longer periods between model changes will help spread out high tooling costs.

Dun's Review and Modern Industry (August, 1960), © 1960 by Dun & Bradstreet Publications Corporation.

The second reason is the increasing amount of the consumer's leisure time, which will make recreation and cultural products, and the benefits of such intangibles as travel and education, doubly attractive. This trend, notes Montgomery Ferar, "can already be seen in the stock market. Companies like Polaroid, Bell & Howell, and Brunswick-Balke-Collender, which have recreational products, are our 'growth' companies."

The major demand, however, will be for products that add to the pleasures of home life. Among these pleasures is space. Says George Nelson, "Designers will learn to do more with less, for bulky design will lose its appeal to the customer." And, the designers point out, as people buy larger houses, there will be a sharp decline in craftsmanship in home building and a corollary rise in "factory" content. The natural outcome: built-in appliances and furniture. This will mean more cooperation between manufacturers of complementary products. Appliance producers, for instance, may be working closely with prefabricated-home builders to make sure their products are suitable for the houses of the future.

The larger family home—and the people who live in it—will benefit from two strengths of American technology: our mastery of miniaturization and our talent for decentralization. A scaled-down washer-dryer, for example, may replace the hamper in the bathroom or the bedroom of the future. And "decentralization" of the refrigerator is already practical as a result of available technology in thermo-electricity, points out Peter Muller-Munk.

Miniaturization will be hitting the office, too, along with increased automation. New small business machines will take up a minimum of valuable office space. But, says Henry Dreyfuss, "There are substantial obstacles to further miniaturization. We still have our own anatomy to consider." Another influence, says Eliot Noyes, will be the desire of many companies to turn their offices into fine examples of interior design. In the future, he says, office equipment manufacturers will stress appearance and color as well as efficiency. And, the designers feel, the "built-in" trend of home design will be paralleled in the office.

New materials already available offer unexploited possibilities, the designers say. Materials that need minimum care will continue to gain over those that require traditional protective coatings. Plastic-coated steel will become a major material for enclosing products, and the decorative effects inherent in many metals will be exploited as never before by techniques such as anodizing, burnishing, and meshing. But despite recent dramatic advances in technology and materials, manufacturers will have to spend more money on new and meaningful research and development if they want to maintain profits.

Tomorrow's customer will be increasingly tempted to apportion her dollar among a broad array of products from all over the world. As the popularity of the compact car shows, foreign competition has already had its impact on domestic design. The designers point out that the development of functional, rather than stylistic, variations should help to differentiate American products from

foreign ones. They also see a growing need to make American products more attractive to overseas customers. Adoption of the metric system would be of great advantage, particularly for machine tools. Internationally understood symbols—instead of words—on controls and dials would make our equipment more competitive overseas.

To manufacturers who seek designs that will sell at home and abroad, the designers emphasize one rule above all others: "Know your customer." As Dave Chapman points out, "American industry is much too factory-, product-, and competition-oriented, and not people-oriented." The patterns of living and working are changing too rapidly to permit a manufacturer to rely solely on experience in trying to figure out what will appeal to the customer.

Curiously, nearly all the designers condemn the market test as a means of finding out what the consumer wants; the consumer, they believe, just can't evaluate properly a product he has never seen. Instead, the designers foresee greater reliance on psychological and sociological surveys as a way of figuring out where the public taste is heading and of interpreting significant national trends. But, the designers point out, no survey is foolproof. The crucial decision as to which design or redesign goes into production belongs to top management.

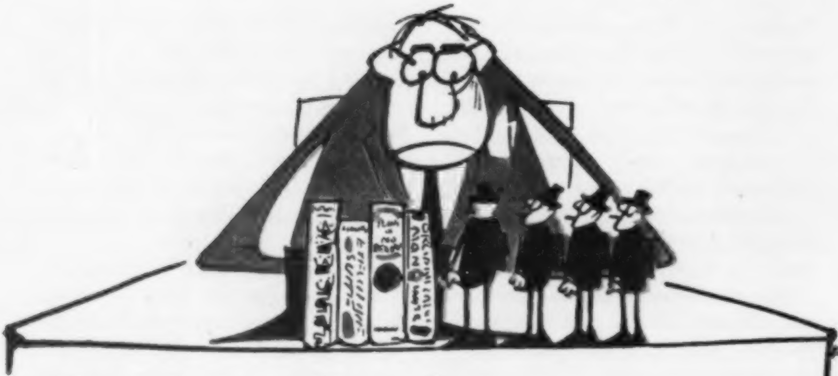
The task of making that decision is not one that the designers envy. It will be even harder than in the past, they believe, due to the increasing diversity of products. Yet that decision will have to be made. Says Eliot Noyes, "Businessmen's improved taste and growing awareness of the value of good design will of itself be an important influence on product design in the next decade."

The myth of the "average" man, woman, or family is dying, the designers affirm, and with it the compromise product designed for a type of consumer who never really existed. Today the "big" market is fast becoming a collection of overlapping little markets, many of which represent hundreds of millions—or even billions—of purchasing dollars. ♦

Off the Cuff

CONSUMER CREDIT this year is reflecting the public's generally secure financial situation and its firm faith in continued high earnings. At the end of the first quarter, consumers owed $16.9 billion for their automobiles, a debit which has risen 16 per cent since the spring of last year. At the same time, however, the indebted consumers have been paying off in increasing amounts the debts they had taken on for cars, appliances, and home repairs, and for loans obtained directly from their banks. This year the repayment of installment debt has actually been running almost 6 per cent ahead of last year. By April, consumers had paid off nearly $11.3 billion of the $39.5 billion of installment debt they owed at the end of 1959.

—*The Biddle Survey*, 6/7/60



Bankers, Books, and Businessmen

By Joseph W. McGuire

Condensed from Harvard Business Review

Do businessmen really resemble their literary portraits? Are they really roistering, boostering Babbitts, insecure Charley Grays in gray flannel suits, or predators foraging in the executive suite?

Most businessmen think not. But if businessmen have nothing in common with these portraits, why have they spent so much time, effort, and money to build up a favorable image? Are they actually trying to counteract the deluge of business fiction?

To find out if businessmen resemble their fictional counterparts, a mail survey was conducted among 500 top executives of commercial banks. Why were bankers selected as possible judges of this point? Because they are neither so far "in" business as to be overly sympathetic, nor so far "out" of business that their opinions might be unrealistic.

Questions asked were based on the synopses of four well-known books on business: *Babbitt,* by Sinclair Lewis; *Point of No Return,* by J. P. Marquand; *The Organization Man,* by William H. Whyte, Jr.; and *Executive Suite,* by Cameron Hawley. A total of 189 bankers completed the detailed questionnaire.

The first group of questions was based on Sinclair Lewis' *Babbitt,* written in the 1920's. The brief summary of this novel on the questionnaire portrayed its hero as a "booster" of his community and his

Harvard Business Review (July-August, 1960), © 1960 by the President and Fellows of Harvard College.

business. It noted that he was somewhat frightened, and that his need to belong and his very boisterousness were the results of feelings of inferiority and insecurity. The first question asked bankers was: "Do you believe that the Babbitt-type of businessman ever existed, or that he does exist?" Respondents were required (as with all questions) to check one of three answers: "yes," "no," or "don't know."

Of the 189 returns, 121 (over 64 per cent) said that the Babbitt-type of businessman did exist in the past or he is still among us. Thus, for the majority of bankers, Sinclair Lewis' portrait of a businessman is still very real.

Respondents were asked to comment on the accuracy of Lewis' portrayal of businessmen, and on how generally his portrait applies. Of the 79 bankers writing comments, 51 identified Babbitt with reality, while only 28 did not. Within the first group, 27 felt that Babbitts could be found in business but that they are not typical, 19 felt that Babbitts are representative of the average businessman, and only five thought he could not be found in business at all. Most of the remaining 28 bankers found Lewis' picture of Babbitt "highly overdrawn" and "exaggerated"; "based on poor observation and poor reporting"; a "not accurate portrayal."

Evidently, most of these bankers found that the picture of Babbitt fits their conception of a businessman—and this in spite of modern organizationalism and gray flannelism.

Point of No Return, by John P. Marquand, was published in 1949 and immediately became a best seller. It was included in the questionnaire, not only because it is so widely known, but also because it deals with banking.

This novel has as its theme the emptiness of material rewards. A young banker, Charles Gray, while sweating out a possible promotion to vice president, returns to the scenes of his happier youth and realizes, beyond the point of no return, that the true values in life are not the bigger (hence, better) house, or the more expensive (hence, better) country club.

In the first question on *Point of No Return,* respondents were asked if they believed that the business system overemphasizes materialistic values. Almost 76 per cent of the bankers answering this question said "yes," 21 per cent answered "no," and only 3 per cent were undecided. The next question asked bankers if they agreed that businessmen are caught up by the "system"—that no man is as important as the firm. Approximately 77 per cent of the bankers said yes, 16 per cent said no, and only 7 per cent did not know.

The other questions relating to *Point of No Return* inquired more specifically about financial goals. One asked whether the making of more money was the primary goal of men in business. Approximately 78 per cent of the bankers said "yes." But when asked, in the next question, whether the making of more money *should* be the primary goal of men in business, only 43 per cent replied affirmatively, 53 per cent answered negatively and 4 per cent said they were in doubt.

According to bankers, then, the

profit motive is still the principal drive for men in business—but, the bankers feel, it shouldn't be. Comments accompanying their answers imply that there is a taint to the drive for materialistic ends, when men should be striving toward more social and spiritual goals.

The Organization Man, by William H. Whyte, Jr., was the only nonfiction work used in the survey. The book portrays the organization man as a person in search of conformity, togetherness, conservatism, and the denial of conflict between society and the individual. Also noted in the synopsis was Whyte's contention that organization men are dominated by the "social ethic": that they not only want to work for the corporation, they want to *belong* to it. It is a common belief, found in *The Organization Man,* in David Riesman's *The Lonely Crowd,* and in similar works, that the modern executive is "other directed," that we have changed from an economy governed by the "invisible hand" to one that is run by the "glad hand." The claim is made that business executives today are interested mainly in managing people rather than in producing things.

Accordingly, bankers were asked their opinion of the trend of executives toward the person-oriented attitude. Approximately 53 per cent of the replies confirm this trend, 29 per cent express disagreement, and 18 per cent indicate doubt. Over one half of the bankers, therefore, seem to feel that the day of the rugged individualist, the captain of industry, the business technocrat has passed—and that his place has been assumed by the outward-going, other-directed, human-relations-minded executive who is not so much interested in products as he is in people.

The second question asked if bankers approved of this change. Almost 80 per cent of the respondents said that executives should be risk-takers and individualists rather than persons seeking security and teamwork—evidence of an overwhelming dislike of the type of person with whom Whyte was concerned.

The third question asked if the bankers approved of the forecast that organization men are going to be our top executives of tomorrow. While 60 per cent do disapprove, a surprising 36 per cent approve.

The final book summarized for the questionnaire was Cameron Hawley's *Executive Suite.* The story describes the conflict for the presidency of a company between Loren Shaw, the controller devoted to increasing profits, and MacDonald Walling, a young, creative vice president. Walling wins the post by making a speech to the directors in which he says that growth, human relations, and a quality product are more important than dividends to a company. The implied moral is that the best business leader is an ethical and inherently "good" man, and that profits can result most satisfactorily from good works.

The first question based on *Executive Suite* asked whether materialistic motives are commonly hidden under pious cant about morality and social responsibilities. Almost 52 per cent of the bankers said they believed just that. Approximately 35 per cent said they believed the opposite, while about 13 per cent were unsure.

The second question asked the bankers if *they* considered quality of products and good human relations more important than profits. Over 75 per cent expressed the belief that these things are more important, while about 25 per cent disagreed. When, however, the bankers were asked whether they believed these intangibles important *only* insofar as they contribute to long-term profits, 55 per cent replied "yes," and 44 per cent answered "no," and 1 per cent were in doubt. It would seem, therefore, that most bankers put survival of the firm ahead of responsibilities, and that if it came down to a final decision between responsibilities and survival, bankers would choose the latter.

The last question on *Executive Suite* was prefaced by a statement pointing out that young Walling reaches the presidency largely because he possesses the attitudes and philosophies of his predecessor. Bankers were then asked if they thought that a man being promoted should hold ideas similar to the ideas of those in authority. About 53 per cent of the bankers said "yes," 40 per cent said "no," and 7 per cent did not know.

The bankers, in effect, confirm the advice often given to college graduates: Adopt the corporate spirit, be like your boss, be the wise "maybe" man when it is not smart to be the "yes" man. The key to corporate success, their answers imply, is to mold oneself into the image of one's superior.

The image of business and businessmen that emerges from this survey is not very flattering. The bankers conceive of the business system as a dominating, materialistically oriented organization of activities. At times, it wears a half-mask of social responsibility above a pleasant smile of respectability. But, they imply, the system basically motivates men into a never-ending quest for higher and higher incomes. Individuals are expendable to the goals of the system, and for a man to rise, it is necessary that he repress his emotions and his personality and try to emulate his superiors.

Here, then, is an important problem that confronts business today. The business image held by bankers is extremely adverse; thus it is not too wild an assumption that the general public possesses an equally unpleasant picture of the businessman. Are businessmen to shrug their shoulders and claim that this image is unrealistic? Or, on the other hand, should they try to prove that they are actually better than they have been portrayed in literature? And if so, how?

What businessmen should *not* do is to hire more and better public relations men to foist a make-believe but happy picture of their philosophies and attitudes on a gullible and unsuspecting public. Changing the image superficially will not alter the underlying causes of unfavorable public reactions.

What is called for is this: Businessmen must seriously and conscientiously try to build a solid ethical and moral foundation from which a more favorable yet honest image can spring. It is the moment for each businessman to look within himself and, if he feels that he has contributed in any way to the images that exist, to change for the better. ♦

Investment Clubs AROUND THE WORLD

By Robert Francis and Peter Landau

Condensed from Newsweek

SEAMEN aboard several Great Lakes steamers conduct frequent meetings by ship-to-ship phone. In the little English town of Ilminster, a banker, a retired Army man, a gardener, and several dozen others spend many an evening together. And in the recreation hall of a geisha house in Kyoto, Japan, a number of the kimono-clad girls periodically hold similar meetings.

All these groups are interested in precisely the same thing: how to pool their money and turn a profit by investing it in the stock market. Investment clubs, once a peculiarly American phenomenon, have spread around the globe. The best estimate is that about 500,000 small investors throughout the world have banded together in such clubs as the New Champagne Club (U.S., composed of members of Lawrence Welk's orchestra), The Hopeful Ten (Great Britain), and *Hayaoki-kai* (Japan's Early Risers' Club).

In the past five years, the number of U.S. clubs has soared from about 2,000 to more than 25,000. In Japan, the number of clubs has tripled in the past three years, to 6,000. Elsewhere around the globe, there are now 500 clubs in the United Kingdom, 72 in New Zealand, 50 in Australia, 42 in the Netherlands, and others in such remote spots as the hills of Kenya, the city of Cape Town, South Africa, and oil-rich Bahrein, on the Persian Gulf.

This July, in London, the heads of the U.S. and the British national associations of investment clubs met with nearly 50 other delegates to form the World Federation of Investment Clubs. Their goal: to set up a worldwide investment information clearing house. Part of their program is to correct the belief—still prevalent in most areas outside the U.S.—that investors must have a fortune to dabble in the stock market. Many investments are really quite modest. Japan's Early Risers' Club, for instance, is made up of small farmers outside Tokyo, each of whom pays in about $1 a month. The average monthly stake in Great Britain is $14 per person; in the U.S., about $20. The stakes often go higher, of course: Tokyo's *Yoka-kai* (Eight-Day Club)—a group of about twenty business and professional men who

Newsweek (July 18, 1960). © 1960 by Newsweek, Inc.

meet on the eighth day of each month —has a portfolio worth $200,000.

Many of the club members have been doing well. One club in The Hague, for instance, started out two and a half years ago with a dozen members who contributed about $5.60 a month. The club's $2,520 investment is now worth $4,200. The Wellington (New Zealand) Club has made nearly 20 per cent on its $4,200 investment in a little more than a year. A group of 43 clubs in Indiana compounded their money at a rate of 21.5 per cent a year, did 24 per cent better than the market as a whole.

One reason for this success is that the members pool their knowledge as well as their money. David A. Moate, president of the National Association of Investment Clubs (Great Britain), explains it this way: "Say you have a lawyer, an accountant, a salesman, and a construction man in your group. This adds up to a lot of experience and common sense." Some clubmen get better at picking stocks than their brokers, he adds: "A man living in the country knows better than a broker in the city which makes of trucks and farm machinery are selling."

Most of the clubs invest in stocks and companies in their own countries, but the reasons are more often economic than patriotic. Currency restrictions, legal complications, and higher taxes abroad often tend to rule out foreign investment. There are exceptions. Britain's Moate says: "We're not married to the idea of investing at home. We liked the look of Finsider, the Italian steel company, and Siemans & Halske, the German electrical manufacturer. We bought some of each." In Detroit, the Detroit-Israel Investment Club was set up for the purpose of investing solely in companies in Israel, and similar investment groups are being planned in other cities.

For the most part, the investment goals of clubs are about the same as they are for individual investors: safety, income, or growth. But some countries have different ideas about which industries will grow most. In Japan, for instance, the clubs see brewing as an important growth industry. The reason? As one Japanese broker succinctly explained: "We Japanese will drink more beer." In Britain, the clubs are supporting consumer-goods stocks such as food, radio-television, and stores—all of which have benefited from the recent removal of government restrictions on credit.

Another important reason for the popularity of consumer-goods stocks: More and more women are joining investment clubs, and they like to buy stock in companies that make the products they know best. In the U.S., 10 per cent of all investment clubs are exclusively female. Nomura Securities Co., the largest stockbroker in Japan, has offices in department stores to cater to the stock-hungry woman investor.

Many dealers have reservations about handling penny-ante accounts of small investment clubs. But catering to them can be well worth the trouble. Werner Kramarsky, manager of Bache's Frankfurt office in West Germany, reports that "about half the club members eventually open individual accounts." Nomura Securities

estimates that 10 per cent of all its new business comes from Japanese investment clubs.

The business will keep pouring in from all over the world, if enthusiastic clubmen have their way. And while they are making money for themselves, investment-club members are performing a more important job. "The burden of raising new money for industrial expansion is heavy—from the most advanced nations to the newest," says John O'Hara of the U.S. association. "Capital must come more and more from the middle-income group." ♦

The Office of the Future?

IMAGINE THE OFFICE OF AN EXECUTIVE about the year 2000. He will sit at a desk that could be a casual table no more than two feet square. His mail will consist of a tiny packet of plastic transparencies similar to microfilm. These transparencies will come directly from the receiving and transmitting room that every large office will have or, alternatively, from a pool communications operation in every office building for smaller companies that do not wish to operate their own facility.

These interoffice communications rooms will automatically receive, over both wire and radio systems, electronic impulses stimulated by voice and transcribed on the small plastic transparencies. The executive of tomorrow will slip one transparency after another into a slot in the surface of his desk and listen as his correspondent talks. He will stop and start the transcription as he wishes, dictating his reply either as he listens or when he is finished.

When each transparency has delivered its message, it will go by pneumatic tube to an automatic filing system built into the office wall. The dictated reply will go out from the communications office to the appropriate recipient, who will have similar mechanisms in his offices. At the same time, a transparent copy of the message will be made and automatically filed with the original. So predict the editors of *The Office.*

Going way out on a limb, they further foresee that there will be no secretaries, no stenographers, no messengers, and no need for any other employees in the office. Office conferences will be virtually eliminated by use of highly developed closed circuit television running to composite screens in each executive office. Incoming calls will be handled semi-automatically by the executive himself who, on the appropriate signal, will throw a switch, view the caller and, by use of a selector control, speak on a face-to-face basis or activate a recorded message stating that he is not available.

Filing systems will be housed in the walls of offices and will occupy no more than a width of 4 inches. They will be operated by a push-button control that will bring a transparency to the executive's audio-video unit within seconds.

MARKETING and SOCIAL CLASSES: AN ANTHROPOLOGIST'S VIEW

By Margaret C. Pirie

Anthropologists—the people who study people—divide our society into three classes: the upper, middle, and lower classes. And within each class, the scientists say, people possess similar emotions, values, ambitions, likes, and dislikes—all of which influence buying habits. If you want your marketing and advertising program to be truly effective, it must

Condensed from an address delivered before the Conference on Sales and Marketing Management. © 1960 by the University of Michigan.

be tailored to reach the social class that your product fits.

What are the characteristics of the three classes? The anthropologists, admittedly generalizing, describe upper class people—who comprise about 3 per cent of the U.S. population—as international in their residence, friendships, and relationships. Upper-class people may be found in Europe in the wintertime, sunning on the Riviera or skiing in the Alps; in New York in the fall, to shop and see the new plays; in Bermuda in the spring.

But upper-class people consume relatively few goods. Many of their belongings are inherited. The young couple from the upper class who cannot furnish their first home completely from inherited furniture and wedding presents is a rarity. Although members of this group do utilize services, they are conspicuous by their non-consumption of goods. They have sufficient family prestige and security that they do not feel they must "keep up with the Joneses."

In understanding our society and its motivations, it is not enough to know the behavior of each social group. Important, too, is a person's "reference group": the social group above him which he admires, imitates, and would like to become a member of one day. This reference group colors his behavior and influences his actions in many subtle ways.

The reference group for the U.S. upper class is the British upper class. The higher a person climbs in the social structure of America, the more Anglophile he becomes. Upper-class universities, such as Harvard, Yale, and Princeton, bear a striking resemblance to Oxford and Cambridge; Ivy League style clothing shows British influence; and British sports such as sailing, polo, and riding are upper-class American favorites.

In any large-scale marketing plan, the upper class may be ignored, because they consume so few new products and because they use more services than goods. Sometimes, however, they will endorse products for the sake of their favorite charities—an important fact to remember when you are introducing a new product. Because of the role of the reference group in our society, new products should be introduced as high up in the social scale as possible. In time, the product's use trickles down through the other groups.

At the other end of the social scale is the lower class, comprising about 20 per cent of the population. Lower-class people are, for the most part, unskilled workers, and their future is uncertain. Thus they buy largely on impulse, while they have the money in their pocket. They shop where they can get the easiest credit terms, since impulse-buying of small things drains off money that would ordinarily be left for larger items like furniture.

Lower-class people like to watch TV or go to the movies. In general, they are non-readers, in the sense that they do not care to read. In terms of marketing, therefore, there is little point in trying to reach them through printed advertising. They are most easily reached through TV advertising.

What about the middle class? These are the people who run our society. Actually, the middle class is composed of two segments. The larger segment—"the muscles and hands" of

our society—accounts for 65 per cent of the U.S. population, while the upper middle class—"the brains and eyes"—comprises about 12 per cent. In the larger portion, you find the skilled, semiskilled, and unskilled workers, white-collar men, small businessmen, and salesmen. The "typical" middle class man plays canasta, rummy, or poker; he watches TV and goes to the movies and the bowling alley. He reads the *Reader's Digest* condensed books, *Life, Saturday Evening Post, Sports Illustrated,* and *Esquire;* his wife reads *McCall's, Good Housekeeping, Ladies Home Journal,* and *American Home.* The family buys at neighborhood shopping centers, Sears Roebuck, and the large department stores. The men belong to unions, lodges, and fraternal orders, while the wives belong to the ladies' auxiliaries.

The middle-class family is a child-centered family, and the wife, to a large extent, is a home-centered person. She shops in her neighborhood, forms her friendships on the street, and is likely to devote her non-home energies to local activities: the church, the P-TA, or the Girl Scouts.

When the middle-class wife wants to buy something, she reads all the ads and compares all the prices beforehand. She usually has to be "sold" at home on the value of an article before she can walk in and buy it with any confidence.

What do middle-class people do with their money? They may buy a better house in a neighborhood similar to their present neighborhood, or buy a better car or better clothes. They seldom change their way of living much: Success is conceived within the limits of the social group to which they belong.

The upper middle class group—"the brain and eyes"—is the key group in marketing. The upper middle class is composed of professional people: doctors, lawyers, professors; owners of medium-sized businesses; and business management and executives. They read *Time, Life, Fortune, Harper's, Vogue, The New Yorker, Saturday Review of Literature,* and *The New York Times.* They play bridge and Scrabble; drink cocktails; go to plays, museums, symphonies, and art galleries; belong to golf clubs, yacht clubs, and college clubs.

Success to this group involves reaching a much higher income bracket, coupled with achieving social advancement for themselves and the best possible education and social position for their children. Their reference group is the upper class.

The possessions of the middle class are usually new. Their purchases of foreign cars, sailboats, and stereo sets brings them prestige, because their associates approve of them. The successful upper-middle-class wife is the one who can make her husband's income stretch to cover as many prestige extras as possible: good schools for the children, a good summer camp, dancing lessons, music lessons. In order to have money enough for the extras, the upper middle-class wife has developed many skills: She may well make her own clothes and some of her children's; she can paint, or paper the walls, do carpentry work, upholster furniture, and refurbish antiques bought at auctions. Whether an object is new or secondhand does not concern her if it is of good quality.

Per capita, upper middle-class people purchase a far greater number of products than any other group. And their use of these products is displayed for all to see—for their peers socially, and for others further down the social scale at the office, school, church, and other public places. Businessmen should give the most careful consideration to the advertising and marketing of products for this group, since acceptance here is crucial.

Advertising and marketing for the upper middle class must above all be truthful. This group usually reads the consumer reports and is equipped with certain facts and figures; therefore any attempt to gloss over a product's shortcomings or to use the hard sell will be futile. Humor, however, is very useful. A recent Harvard survey has indicated that the higher a person's social position, the more times a day he laughs and the larger is the area encompassed by his sense of humor. Humor used in marketing must have the light touch, and must not be allowed to grow stale through too much repetition.

The upper middle class also holds the key to future trends in marketing: A check of upper-middle-class consumer feelings about your product today can give you an indication of the marketing problems you will face tomorrow. For example, in 1955 there were complaints from this group that cars were too big and too awkward, were covered with too much chrome, and burned too much gas. Few companies took these complaints seriously. Now, five years later, manufacturers are scrambling to design and market an economical, unadorned, small car. ♦

Gradual Retirement

MANY EMPLOYERS—and presumably many employees—are not aware of the fact that men over 65 and women over 62 can collect Social Security benefits during leaves of absence from work, Prentice-Hall's *Information* reports. This is an important factor in "gradual retirement" plans being used by an increasing number of companies.

Under gradual retirement plans, men reaching 65 and women reaching 62 are allowed to continue on a limited basis. A common plan is to require these employees to take a month's leave of absence the first year, two months the second, and so on until the employee reaches 70, at which time full retirement is mandatory.

Graduate retirement benefits both employee and employer. The employee is given time to adjust to retirement. During his leave, he can try out various retirement activities without having to make a permanent commitment. He escapes the sometimes traumatic experience of suddenly finding himself with nothing to do, nowhere to go, and nothing to which he belongs. The company benefits because it can make a gradual replacement of the retiree, gaining time to select the best man; it gets better work out of the retiring worker because of his month-long rests; it may develop better morale among those approaching retirement age.

—Elmer Roessner in *Business Today*, 7/28/60

The Job of Assistant Manager

By Robert R. Salyard

Condensed from Management Methods

THEORETICALLY, the job of assistant manager has a lot to recommend it. But can a man, in reality, purposefully perform when he is suspended between an authorized manager above and the manager's subordinates below?

Many companies use the one-over-one system of management, consisting of a top executive, an in-line assistant manager immediately below him, and from three to eight supervisors at the third level. The usual arguments for this type of organization are:

- The executive is freed for travel and outside contact work.
- The executive can spend more time on long-term planning.
- In the executive's absence, it is clear who is in charge.
- The assistant manager gains valuable experience that helps prepare him for a higher post. At the same time, this preparation simplifies management succession.
- Supervision and communications are improved because either the executive or his assistant is always present.

This sounds like good reasoning, and the organizational chart looks neat—but do things work out this way in day-to-day practice? Can an executive retain his authority *and* share it with his assistant? Here's what often happens:

When the executive is present:

1. The assistant checks all important decisions with him.
2. The executive (by desire or policy) approves all money matters.
3. The executive gives instructions directly to supervisors.
4. Supervisors bypass the assistant and report directly to the executive.
5. The assistant spends most of his time doing special studies and analyzing reports, or providing additional supervision for a trouble spot.

When the executive is not present:

1. The assistant runs up telephone bills checking his "decisions."
2. The assistant mails daily operating statements to the executive's travel stops—or even to his vacation retreat.
3. Other executives delay significant business until the traveling executive returns.
4. Supervisors handle emergencies independently, without consulting with the assistant manager.

Still other serious problems arise from the use of the in-line assistant:

- Management succession is awkward if the wrong man is selected as an assistant. Correcting this situation

Management Methods (June, 1960), © 1960 by Management Magazines, Inc.

can be extremely time-consuming and costly.

• Supervisors and middle managers feel stymied because the executive's heir apparent has been selected.

• The use of assistants throughout an organization boosts direct-management payroll costs.

• Supervisors receive direct supervision from both the executive and his assistant.

• Management controls (i.e., budgets and other control techniques) are difficult to employ when the executive and his assistant split between them the authority for subordinate sections.

• The lines of communication are lengthened, and communications themselves blurred, when another management level—the assistant's—must be included.

If your firm does use in-line assistants, and if the problems outweigh the advantages, then try these corrective steps:

1. Spell out the authorities and responsibilities of each organizational level and management position.

2. Provide for the delegation of more responsibility to first-line supervisors.

3. Eliminate duplicated functions and procedures.

4. Design and install better planning and control devices. ♦

What Shareholders Don't Know About Advertising Costs

SOME FAIRLY ERRATIC CONCEPTIONS of advertising and advertising expenditures by stockholders were disclosed recently in a "knowledge-ignorance" survey conducted by the United Shareholders of America, reports Joseph Kaselow in *The New York Herald Tribune.* The organization found that nearly three out of four stockholders were ignorant of the advertising policies of the corporations in which they own shares. Significantly, perhaps, of the 2,000 owners of common stock surveyed, three out of four persons had college educations.

Only 11 per cent of those answering the survey would make a stab at estimating how much companies spent for advertising, and 10 per cent of these were way off the mark. For instance, one respondent estimated that Ford Motor Co. spent $50,000 annually on advertising. Its actual expenditures last year: $61,700,000, third largest in the nation. Another placed General Foods outlays at $60,000. Actual expenditure: $61,000,000. In this group, the highest estimate of the amount of advertising money spent by a corporation was $100,000 for General Motors. Actual expenditure: $110,600,000, highest in the nation.

Some 15 per cent ventured opinions on whether expenditures of corporations were in proper proportion to the gross volume of business recorded in the last annual statement. Of these, 13 per cent replied affirmatively, which, in view of their conception of how much is spent on advertising, is hardly surprising.

INDUSTRY'S GROWING STAKE IN *Womanpower*

Condensed from Industrial Relations News

TODAY, one out of every three workers is a woman, and women are now employed in 448 of the 451 job categories listed by the U.S. Census. As more and more women enter the work force, management is discovering that an understanding of the motivations, goals, and abilities of female workers can contribute substantially to their productivity.

Labor Department studies indicate that the steadiest and most reliable pool of women workers is the over-35 group, especially women aged 45 to 54. Their reason for working may be the desire to supplement family income, the preference for office or industrial work over household work, or a search for meaningful activity when the children need less care. But—for those women with families to take care of—home, children, and husband still come first. That is why these women often balk at overtime work and why many of them want their vacations when their husbands have theirs.

There is a general belief that employees prefer not to work for women. Part of this feeling stems from the fact that women—despite important gains in recent years—still occupy lower status in the business world than do men. However, substantial numbers of women have long been successfully employed as supervisors in many industries—notably retailing and telephone utilities—with great success. The mature women make better supervisors than the younger

Industrial Relations News (July, 1960), Industrial Relations Newsletter, Inc.

ones, says the National Manpower Council; the older women—with usually lighter homemaking responsibilities—can devote more time and attention to their jobs.

Less than half of the present female work force works full time throughout the year. Turnover rates for young women under 25 and for married women with young children are higher than for older women. Labor Secretary James P. Mitchell recommends that more employers devise a staffing pattern which permits some office jobs to be filled by two or more women, each working part of the year or each working part-time. One company—the Preferred Risk Mutual Insurance Co., Des Moines—has created a four-hour "working mothers" night shift of highly qualified clerical personnel. Most of the women—experienced clerks and secretaries who "retired" upon becoming mothers—can get away for four hours a night while their husbands mind the children, the company found. To make the job especially attractive, Preferred Risk permits working mothers to look and dress as they please, and provides free rolls and coffee for munching at desks. Salaries are equivalent to those for the day-shift personnel. The night shift, the company reports, requires less supervision than the day shift, and has lower rates of lateness, absenteeism, and turnover.

Women usually have higher rates of lateness, absenteeism, and turnover than men. For example, the New York Commerce & Industry Assn. reports that average absenteeism rates for the first quarter of 1960 for 133 N.Y. companies came to 4.33 per cent for the women, 2.86 per cent for the men. Part of this higher rate stems from the ladies' greater susceptibility to illness and their pressing family responsibilities. But, the experts say, part of it is rooted in the fact that women feel less loyalty and responsibility toward their jobs than men do. One reason for this is that women haven't been conditioned to take a career or a job as seriously as men. The difference, psychologists say, shows up in absenteeism rates.

Women workers find it difficult to disassociate criticism of their work from personal criticism. Women, says one insurance company executive, "have less tolerance to insult and discipline than men." Supervisors of women, therefore, should be especially careful to avoid any unfavorable action or comment unless it's cushioned by some praise. And when it comes to giving instructions, advises a personnel administrator, "men can be ordered, women must be persuaded."

The principles of human relations —treating all employees with respect and with consideration for their personal feelings—apply especially to women; women tend to see most things subjectively, in terms of themselves, rather than in terms of the group or the company. This may explain the inordinate number of demands and complaints against other workers which some women bring to their supervisors. They may simply be making a bid for attention.

Personal relationships on the job are extremely important to women. Chesebrough-Ponds, Inc., N.Y., for example, arranges for supervisors to

place a fresh rose on the desk of every woman employee on her birthday. Jay H. Calvert, personnel director, reports the company also arranged for groups of office workers—mostly women—to visit the company's Clinton, Conn., plant for a day. The reason, explains Calvert: "They talked to Clinton every day, but never met the people they talked with." Morale among secretaries at a Veterans Administration Center in Hot Springs, S.D., was boosted by twice-monthly meetings with supervisors. These regular sessions have served to give the girls a feeling that management cares what they think, and have enabled them to air their complaints and suggestions. Personal contacts established at the meetings help secretaries in their day-to-day tasks that require cooperation between several departments.

The physical environment has a greater influence on women's morale than on men's. The women react more favorably to orderliness and pleasant surroundings, and, for instance, are likely to be especially interested in office décor. A McGraw-Hill Publishing Co. survey of 800 secretaries indicated that 50 per cent of women clerical workers might turn down a job if they didn't like the looks of the office. Women's "nesting" instinct, say psychologists, is behind their desire to dress up their work areas with plants, attractive furniture, and color typewriters. Some 66 per cent of the McGraw-Hill survey respondents consider color "very important." In addition, women workers are quick to complain about what they consider substandard sanitation conditions.

Women's safety records are often held to be better than men's. But some studies show that this isn't entirely true. For example, one company examined the safety records of 2,044 men and 2,623 women over a five-year period, and found that men had 42 per cent of the accidents, women 58 per cent—almost in direct ratio to employment. The men's accidents, however, were more severe. In 1950, the New York Telephone Co., whose work force is two-thirds female, found that women were responsible for 3.47 lost-time accidents per million hours of work, compared to 1.25 for men: a 3-to-1 ratio. The company's safety program, which was aimed mainly at men, was revised to place greater emphasis on safety training for women, warning them of the dangers of high heels, open file drawers, and wastebaskets in the aisle. By 1957, women's lost-time accidents were reduced to 0.40 per million working hours, against 0.55 for men.

One reason why women may fail to perform as well as men doing the same work is that they are generally paid lower wages. Another reason may be that the job doesn't measure up to the women's abilities. Paul De Bacco, regional personnel supervisor for Celanese Corp., says, "When you place a capable girl in a job that doesn't challenge her, absenteeism will go up." This, then, is a question of careful selection.

Is there any formula for successfully supervising women employees? One industrial relations expert offers one, with complete seriousness: "Recognize how they differ from men employees, treat them accordingly—and don't let them know it." ♦

Top Management and the Sales Force: Cooperation—or Interference?

Condensed from Salesweek

WHY DOES TOP MANAGEMENT sometimes leap into the sales operation? How much confidence do senior executives actually have in their sales managers? And how can top management best assist its marketing executives?

These are some of the questions recently probed by *Salesweek*. Among its findings was the discovery that there is often a breakdown of communication between the sales executive and the senior executive, a lack of mutual understanding about the responsibilities—and limitations—of each.

For example, in a recent survey conducted by marketing professor Charles Lapp of Washington University in St. Louis, half of 38 top company officers had serious complaints about their sales chiefs. The marketing men were labeled as "often ineffective" in the vital areas of coordination, follow-through, problem diagnosis, and decision-making. One-third of the top-echelon respondents say that these deficiencies are so important that they are often forced to become directly involved in the sales effort.

On the other hand, 86 per cent of the sales managers feel that top management does *not* get too far into sales—clear evidence, they say, of top-echelon confidence in their ability. And in several cases, the sales chief and a senior executive *in the same company* disagree on the extent to which the executive gets involved in sales.

Why do some members of management step into the sales picture uninvited? One reason is management's lack of confidence in the sales organization. But this is not the whole answer, for top-echelon executives often become involved despite their confidence in sales and, in some cases, against their better judgment.

"Yes," says one company vice president, "I get into sales too much. But," he explains with rare candor, "I like it." This frank comment typifies the attitude of many top executives, especially those who came up through the sales ranks and loved selling: They simply can't resist rolling up their sleeves and plunging back in from time to time. Another statement, from president John C. MacFarlane of Youngs Rubber Corp.: "I still plan our annual sales meetings, still do a great many things in the sales area which other men would delegate. I suppose it would be simpler for me

Salesweek (June 27, 1960), © 1960 by Vision Management Publications and National Sales Executives, Inc.

to let others do them. Call it a quirk, if you like, but I simply want to keep hold of the reins."

Whatever the motivation, the marketing men polled feel that top management should serve primarily as inspiration, as relief, or as a backstop—not as an active participant in the day-to-day sales operation. President Paul Wishart of the Minneapolis-Honeywell Regulator Co. has long championed this cause: "The senior executive today," he believes, "must leave the specific act of selling to those specialists, the salesmen, whose responsibility it is. It is top management's job to aid this basic function, largely by looking beyond it. The more time it spends doing so, the more effective will be its role in sales."

Dr. Samuel Stevens, prominent Chicago management consultant, observes: "A chief executive who tries to double as his company's master salesman not only will be diverting his energies from other responsibilities, but may lose the respect of other groups which look to him for impartial judgments. His research arm, for example, may feel he is not thinking objectively about new products and product development. Even if he only lunches more often with his marketing director than with other managers, he may be damaging the very operation he intends to help, for the sales executive will be pulled down by others who want attention and favor. The chief executive must tread a very fine line of detachment and involvement, so that his decisions will be based on what he knows about the total corporate life, not a single segment of it."

When a senior officer insists upon making a sale personally, he exposes himself to pitfalls which do not exist for his subordinates. First, he cannot afford to lose the sale because it can adversely affect his staff's morale. For this reason, he may be forced to make unwise concessions. Second, other customers who hear about it may feel that they are getting only second-rate treatment, and may demand executive-level attention, too. Third, the senior executive may go into a sales situation unprepared. Because of his many other responsibilities, he cannot know as much about a given sale as would the salesman assigned. And finally, his sales staff may come to rely on him and use him as a crutch.

Few marketing men deny, however, that top management can be a great help in the actual selling process at specific, important times:

- When cooperation among departments breaks down.
- When the weight of top-level influence can help cinch a big sale.
- When executive recognition of important customers can further future relations.
- When the sales executive needs support within the company.

Other times top management may step in to advantage: when the service function lags behind the sales effort; when other department heads and employees need a reminder of their relationship to sales; when a policy needs interpretation to a customer; when management can establish contacts through social, financial, and cultural relationships; when the sales staff must be relieved of functions which deter it from selling; when a pricing problem arises; when a customer has a serious product problem.

But, almost to a man, sales executives prefaced their comments with this reservation: "Management can help best when I *ask* for help."

What, in turn, can the sales executive do to earn management's support? Top management men say they would be reassured if the sales executive would carefully plan all sales programs and seek prior approval for major ones; display more initiative and follow-through in implementing these programs; keep abreast of the sales situation, thereby building management confidence in his opinions; keep top management well informed, whether the news is good or bad; and produce sales.

Does less direct involvement in sales mean that the senior executive will be less importantly involved? Decidedly not. He can—and properly should—exert influence from a distance in these four ways:

1. Charting the company's direction. Says Wishart: "A company's senior executives must form a clear idea of what fields they want to service and what tools they want to use for the job. This is not a static function, but one that requires constant, almost daily review and evaluation. It is the senior executive's first and most important obligation to his salesmen."

2. Getting across to salesmen, customers and suppliers the basic concepts about the company, its image, and what it stands for.

3. Conducting the continuous, never-ending talent search for people who will put these concepts into action. "Few things are more important," president Logan of Lance, Inc., believes. "Right now I am handpicking field management for 28 new branch offices. I contribute a lot more to the sales operation this way than by carrying around an order book."

4. Providing the kind of leadership that will inspire salesmen to go out and sell. ♦

Employed in the Cradle of the Deep

A SHORT DISTANCE off the California coast, three men on a sled are being towed along by a boat. This is no pleasure jaunt. The sled is bumping along the bottom of the Pacific, some 90 feet below the surface. And the men, wearing skin divers' gear, are seeking the best route for an underwater oil pipeline planned by Texaco, Inc.

Skin diving is fast becoming a good deal more than a hobby. Commercial skin divers, in addition to handling underwater surveying, are working for marine salvage firms, aiding law enforcement agencies, and soon will even help test airplanes. Douglas Aircraft Co., Inc., plans to test the strength of the fuselage of its giant C-133 cargo transport plane. The fuselage will be twisted back and forth by hydraulic jacks to determine how much abuse its aluminum ribs will stand. To keep parts from flying off in all directions, the fuselage will be immersed in 24 feet of water. The skin divers will submerge to watch the progress of the test.

—*The Wall Street Journal*, 6/27/60

The coming shakeout in *electronics*

By Charles E. Silberman

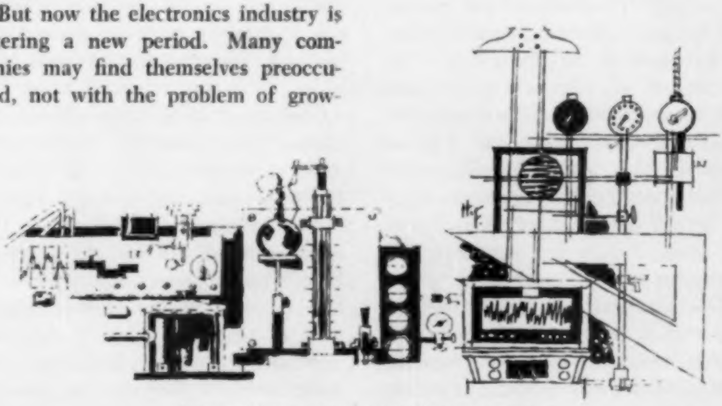
Condensed from Fortune

ELECTRONICS is rapidly becoming a basic part of the U.S. economy. Total electronics-industry sales, having quadrupled in ten years, are now running about $10 billion. Electronics stocks have been a continuing sensation on Wall Street for the last two years. Electronics technology is opening the universe to man's exploration, and it has catapulted several companies into the front rank of U.S. industry.

But now the electronics industry is entering a new period. Many companies may find themselves preoccupied, not with the problem of growing bigger, but with the problem of surviving an inevitable shakeout.

It is clear that the electronics industry cannot continue to expand at the rate of the past decade—almost 15 per cent a year compounded, or three-and-one-half times as fast as all industrial production. On the highest projections now being made by economists and market researchers, the industry's growth in the 1960's will not exceed 9 per cent a year; on the most conservative projections, the industry will expand by 4 per cent a year.

In an industry geared to a breakneck expansion, a slowdown in the rate of growth poses some serious



Fortune (August, 1960), © 1960 by Time, Inc.

problems. Warren Hayes, of Thompson Ramo Wooldridge, has pointed out that a high proportion of most electronics companies' energies and resources is now devoted to the preparation of proposals for new products, to the engineering of prototypes and the negotiation of contracts, and to research and development operations that can be economically justified only when sales expand rapidly.

The industry must also adjust to a major alteration in the composition of its markets. There are, in effect, four different electronics markets: the government market (dominated by military products); the consumer market (dominated by TV); the industrial market (for such items as computers, microwave communication systems, and industrial control devices); and a relatively small ($1 billion) separate market for all kinds of replacement parts.

Production for the military has been, and still is, the heart of the electronics business. Over half of all electronics sales—about $5 billion last year and roughly $5.6 billion expected this year—go to the armed forces, and two-thirds of the expansion in total electronics sales since 1950 has been military. Some 75 per cent of all engineers and scientists employed by the electronics industry are still working on defense projects. The industrial electronics market would hardly exist in its present form if its enormous research and development costs had not been underwritten by the Pentagon.

The electronics share of defense procurement will probably continue to rise during the next ten years, as more elaborate global communication systems, missile and anti-missile guidance systems, and long-range detection devices come into being. But most military economists believe that the share is not likely to go much above 30 per cent, and some think it may be closer to 25 per cent. The total military budget will almost certainly rise, of course, but even on the highest projections of "peacetime" defense spending, the industry's nearly vertical sales curve of the 1950's is still going to bend toward the horizontal.

While the over-all growth rate of the military electronics business is declining, the risks are increasing. For one thing, the shift toward fewer (but larger) weapon systems has reduced the number of Defense Department programs and contracts. "We used to make a million things for a dollar apiece," says Lawrence A. Hyland, general manager of Hughes Aircraft. "Now we create one thing for $1 million." At the same time, the attempts of airframe manufacturers to diversify into electronics are increasing the number of competitors for those contracts. And finally, the accelerating pace of military technology increases the risks of contract cancellation. Against this background, any company must feel uneasy about its military business, no matter how secure its present contracts may seem. About four-fifths of Raytheon sales, for example, are to the military, with a large part in two missiles, the Hawk and the Sparrow. The company plans to reduce its military business to about two-thirds as soon as it can.

What about the $2-billion consumer market? Actually, the majority

of electronics firms prefer to bypass this large market because it is frequently unprofitable. Television, which accounts for the largest single chunk, is a very hard dollar. Sales of TV sets rose by a third last year, to $900 million, but this still left TV down a third from the 1950 peak in dollars and down 15 per cent in units. Radio-set sales—$331 million last year—have recovered slightly from the precipitous decline of the early postwar years, but intense competition from low-priced Japanese imports has been shaving margins. Sales of phonographs ($373 million) and hi-fi components ($38 million) have been galvanized by the hi-fi and stereo crazes, but here, too, competition is forcing down prices and profits.

It is true that money might still be made in the entertainment market, especially if inexpensive and reliable color television sets were developed, or if pay television were to become accepted. The consumer market might also be expanded somewhat by new and exotic products like electronic ovens, electronic garage-door openers, radars and communication devices for pleasure boats, and electronic organs. Sales of such equipment came to $100 million or more last year. Raytheon is having some success in selling radars, radiotelephones, and depth-sounding equipment to the booming pleasure-boat industry, and the company is hopefully promoting microwave ovens. But none of these products has the look of future mass markets, and most of them are hard to sell.

And so it is the industrial market that the military electronics firms see as their best prospect. These companies can see some splendid possibilities in applying their military technology to the problems of communications, production, paper handling, and business organization. But so far, as *Electronics* magazine has sardonically pointed out, the industrial market has "demonstrated greater potential for publicity than for sales growth." Sales have grown unevenly, from $350 million in 1950 to about $1.8 billion this year—a hefty rise, but substantially less than had been forecast.

Looking ahead, the big problem for the industrial electronics market is translating the promises of the laboratory and the engineers' drawing boards into products that will meet the stern test of the market place. The market is for specific devices to accomplish specific purposes in communications, data processing, industrial process control, and other distinctive businesses. A lot of these functions will surely be accomplished electronically, but some problems can be solved better in other ways. Even in the most automated society imaginable, business would still need quite a few conventional machines—steel rolling mills, typewriters, and materials-handling equipment, for example—and it will also want factories, stores, warehouses, and office buildings in which to house them. And there is a limit to how much can be spent for new capital goods in any one year.

On balance, therefore, most industry economists doubt that purchases of electronic equipment can rise much above 10 per cent, or at most 15 per cent, of total outlays for producers' durable equipment. Total

outlays are likely to rise from $26.1 billion last year to $50 billion in 1970. This implies an upper limit of perhaps $5 billion to $7.5 billion for the industrial electronics market. Some projections for 1970 run as low as $3.6 billion.

How can the military electronics companies use their existing facilities and brainpower most effectively in moving in on the industrial market? Should they concentrate on making components—the transistors and diodes, electron tubes, resistors and capacitors that form the heart of every piece of electronic equipment? Should they concentrate on the end products themselves—the computers, testing equipment, and controls? Or should they try to do both?

At present, Transitron, Texas Instruments, Clevite, and Sprague Electric are among the companies that have emphasized components. IBM, Beckman Instruments, and Hewlett-Packard have emphasized end products (or a number of end products grouped in a "system"). GE, RCA, Sperry Rand, Litton, and Sylvania have diversified into both components and end products. All these companies must decide whether to continue their present emphases or to change them. The problem is a subtle and difficult one—tougher than any the electronics companies have faced for some time. The capital investment required to build industrial markets is very much greater than the investment in the military market, where the government provides progress payments and occasionally supplies the plants and machinery and underwrites the risks. Thus, picking the wrong product—or even the wrong technology for the right product—may involve heavy losses. And no firm has the financial resources to invade every promising-looking avenue. Which choice a company makes will be affected by its history, its judgments as to where the largest markets will be, and the direction of the new technology. ♦

Packages That Melt Away

A PLASTIC PACKAGING MATERIAL, made from polyvinyl alcohol (PVA), that dissolves in water and releases just the right amount of home laundry soap, bleach, or detergent has been making commercial appearances here and there over the past year, reports *Business Week*. Most of the PVA that's now produced is used three ways. PVA combined with certain other substances makes good adhesives. Textile manufacturers size and finish fabrics with it, and it is often used to size and coat paper. Some of it (less than 10 per cent) is converted into soluble plastic packaging films.

In addition to soaps and bleaches, any number of industrial and consumer goods might be beneficially packaged in these envelopes: hard-to-handle chemicals, powdered insecticides, industrial dyestuffs and additives—all kinds of materials, in fact, that ultimately are put into solution but are likely to contaminate the air or harm the skin in their powder form. All these could be enclosed safely in plastic and released when they hit the water.

Insurance

FOR TRAVELING EXECUTIVES

By Enid Baird Lovell
and G. Clark Thompson

Condensed from Business Record

WHAT INSURANCE BENEFITS does a company provide for its traveling employees and their families? What kinds of travel insurance programs are available and what are their advantages? How many companies use such programs? A new survey conducted among 319 manufacturing companies by the National Industrial Conference Board offers some answers:

Some form of insurance against business travel hazards is provided by 73 per cent of the survey respondents. In a similar survey conducted in September, 1956, only 67 per cent of the respondents carried executive travel insurance. The growth in travel insurance protection over the past four years is indicated not only by the larger proportion of companies providing it, but also by a trend toward more benefits and the inclusion in company plans of more travel hazards and more employees.

Even among those respondents that do not carry travel insurance policies, the idea is widely accepted that companies should assume some responsibility for insuring their employees against business travel risks. The degree of acceptance differs somewhat by industry group. In the metal industry, only 70 per cent of the companies provide travel insurance coverage, as compared with 77 per cent of those in the non-metals groups.

Of the companies that provide travel insurance plans, 11 per cent insure for air travel only; 17 per cent insure for travel by public conveyance or common carriers; 7 per cent for all-conveyance travel; 45 per cent take out all-risk business travel insurance; 11 per cent provide 24-hour accident coverage; and 9 per cent provide other coverages.

How do these various insurance programs differ? *Public conveyance* or *common carrier policies* insure travel by scheduled airlines, trains, boats, buses, taxis, and other licensed commercial vehicles. Some companies with this type of policy pay an extra premium to obtain additional coverage for private and chartered plane travel. *All-conveyance policies* include private passenger cars and other motor vehicles, and give generally broader transportation coverage. For instance, one company's all-conveyance policy covers "injury or death while riding in, on, or being struck by any vehicle on land, water or in the air." "Vehicle," for this purpose, includes a submarine, horse-drawn buggy, bicycle, motorcycle, or motorboat. The policy is for the entire year,

Business Record (May, 1960), © 1960 by National Industrial Conference Board, Inc.

covers both business and pleasure, and even protects an employee who is injured by a vehicle while taking his family to a Sunday picnic.

The *all-risk business travel policy* provides the same coverage as the all-conveyance policy—plus a blanket form of protection against other accident hazards throughout the course of the business trip away from the employee's permanent base of assignment. Some companies have worked out supplementary clauses with their carriers to insure some employees against local business travel hazards, as well as those encountered on out-of-town trips. *The 24-hour accident policies* frequently cover specific executives, and cover both nonbusiness and business exposures. Some companies use this type of policy to insure top executives whose business and personal travel are so intermingled that it would be difficult to separate one from the other.

Which employees does a company protect against travel hazards? Some 64 per cent of the companies carrying business travel insurance extend it to all employees exposed to travel hazards; 17 per cent insure all salaried employees, or all employees exempt from the federal wage and hour law; and 6 per cent insure all executive or management employees. The remaining 13 per cent insure only selected executives or employees.

In 92 per cent of the company travel plans, the payable insurance benefits are in addition to any other benefits the insured employee would receive under workmen's compensation or group life insurance policies. Only fifteen companies relate their benefits to the employee's other benefits. What adjustments are made relate, in almost every case, to the allowance for medical expense or weekly indemnity payments, and do not affect the amount of the death or dismemberment benefits. Under some company plans, of course, benefits are paid directly to the company, so that it can adjust the benefits as the circumstances of the accident or the needs of the employee dictate.

Cost considerations are, of course, a motivating factor in many companies' travel insurance programs. Firms are understandably reluctant to pay added premiums to insure all employees against hazards that only a few are likely to encounter. The most common variation in the policies is in the face amount of the death and dismemberment coverage. In most instances, the size of the benefit is geared either to salary or to job classification. A few companies, however, relate the coverage to the frequency of trips or the number of the employee's dependents.

Companies frequently provide more benefits for executive or management employees than they do for other insured employees. The dividing line between the two categories is not always easy to define, however, and many companies use a fixed salary level, rather than rank or position, as the yardstick for determining an employee's level of benefits.

One popular practice is insuring each employee for an amount equal to his annual compensation, or some multiple of that amount. Most companies using this method insure the employee for two or three times his earnings, exclusive of overtime pay.

The upper and lower limits of

travel insurance coverage vary greatly from one company to another, but the range is usually between $25,000 and $100,000. Companies that insure all employees may insure the lower-paid employees for as little as $6,000 and top executives for as much as $150,000.

Who pays for travel insurance? Generally, the costs are met by the company, with no employee contribution. In companies where the employee pays all the costs, purchase of coverage is voluntary, and the employee may purchase either a specified amount or an unlimited amount of protection, usually at a group rate not otherwise available to him. Companies that share the costs usually offer alternative types or amounts of coverage, with the company paying for a basic type or a base amount of protection, and the employee buying any additional protection he wants.

What about slot-machine insurance? Two-thirds of the survey respondents do not reimburse employees for such insurance. As might be expected, most of these companies already provide blanket travel insurance coverage for all or most of their traveling employees. But at least half of the companies without travel insurance plans are also unwilling to reimburse their employees for the cost of individually purchased protection.

Many companies have found that the existence of an adequate company travel plan is enough to discourage the expensing of slot-machine insurance, even when there is no announced policy against it. Other companies announce their policy for the guidance of managers who review and approve expense accounts, but do not try to uncover or disallow hidden premium costs. But most respondents take a completely neutral position on slot-machine insurance, as long as the costs are not passed along to the company. ♦

Politics? After Hours!

BUSINESS AND ON-THE-JOB POLITICKING don't mix, reports *Industrial Relations News*, after a 21-company survey. Companies generally make no special provisions for political activities by employees during working hours. Wearing of campaign buttons is permitted in 17 of the 21 companies, but they split on the issue of distributing campaign literature, with 10 for and 11 against.

Political parties can't get much help from employee collections during the work day. Soliciting contributions for candidates or parties is strictly forbidden in 19 of the firms, though two of them allow lunch-hour collections.

Time off for campaigning, poll-watching, or "getting out the vote" is not a plank in the company personnel platforms. Workers are encouraged to do their civic duty, but not if it interferes with daily work routines. Business, companies report, comes first.

Telling Your Company's Profit Story

By C. J. Dover

Condensed from Nation's Business

Good profit figures, however welcome to management and stockholders, are often misunderstood by the rest of the public. Many people have a distorted idea of the size and use of a company's profit, while others picture it as a huge pile of cash locked away in a corporate strongbox. A true picture of a company's profits can help dispel confusion in the community and among employees, and can contribute to realistic labor negotiations.

Telling the profit story is not a one-shot effort, to be included only in the annual report. You should discuss it frequently, and through a variety of channels. Here, for example, is a communication plan adopted by a large, multiplant company:

- Periodic features in employee publications, stressing the size and function of company profit; rewriting applicable features for possible use in local newspapers.
- Encouragement of line supervisors to talk to employees about company profit; providing supervisors, through periodic management bulletins, with understandable background data on the role of profit in a free economy, and with up-to-date data on company profit.
- Institutional advertisements in key plant-city newspapers, designed to interpret the community's stake in the continued profitable operation of the company.

Nation's Business (May, 1960), © 1960 by Nation's Business—the Chamber of Commerce of the United States.

• A special employee information package for use when the annual financial report is released. These materials include posters, letters to employees, and a special report printed in the employee publication.

• Inclusion of the profit story in speeches by company executives to community groups.

An important part of the profit story is the *function* of profit. Show what part of profit goes as dividends to stockholders in payment for the tools of production. Point out that there are more than 12 million stockholders in the U.S., and tell something about the number and type of your own stockholders.

Dramatize how part of profit is reinvested in the business to create new products and new jobs and to make current jobs more secure. A good example of such an effort appeared in Lukens Steel's employee magazine:

"In the past year, Lukens used some of its profits to pay for narrow-gauge railroad equipment for transporting ingots and other materials from one part of the plant to another; for a 50,000-pound crane scale for the steel yards; for special tongs for handling ingots and slabs in the 140 mill; and for two ladles for the No. 3 open hearth. Money being plowed back into the company today for machines, equipment, and research facilities helps insure our company's strength and continued success."

The employee publication of an electrical company ran a feature pointing out that one of every six of its employees was working on a product that did not exist 15 years earlier.

Other techniques that tell what profit does include:

• Price tags on newly installed equipment, with a brief message on the role of profits in financing it.

• Interviews in which top management explains how profit sustains the business.

• Description of how a company's past profit or its expectation of future profit enables it to get a loan.

• Dramatization of the large amount of capital investment needed for each job.

• Explanation of how company and employee job security depend on good profit earnings by customer companies.

• Articles which show how profit, reinvested to increase productivity, is the best answer to the challenge of foreign or domestic competition.

Surveys show that employees and the public have an exaggerated notion of the *size* of corporate profit. The average estimate of corporate profit on sales (after taxes) is approximately 20 per cent, while the actual average for industry as a whole runs about 3 or 4 per cent. Here are some suggestions for clarifying the picture:

1. Don't use total-dollar profit figures unless you interpret them in more meaningful terms: percentages, or cents-on-the-sales-dollar, for example. Large dollar figures not related to the size of a business are meaningless.

2. Use visual aids to help readers comprehend your statistics. Many companies have used pie-charts, sketches of a segmented dollar bill, and piles of pennies to show how each sales dollar was distributed.

3. Pick the fairest, most meaningful method of measuring your own profit. Most companies measure profits

as a percentage of sales or as a percentage of net worth.

4. Talk primarily about your company's profit, and only incidentally about industry-wide profit, profit as a share of national income, and so on. Avoid a complicated discussion of economic theory. Your employees and community neighbors will be more inclined to listen to real figures about a real company.

Profit can be made more meaningful by interpreting it with specific examples familiar to your audience. For example, if you are referring to the role of profit in keeping equipment up to date, talk about replacing "the forging press in the Main Street plant." Using names and pictures of local people is another way to give the profit story more impact. For instance, a rubber company published an interview with an employee who formerly worked in a factory behind the Iron Curtain; his understanding of what freedom and the profit system meant to him made an effective story. An insurance company's local stockholders visited a branch office, and photos and stories in the employee publication and the local press stressed the partnership between employees and stockholders.

Remind employees and the public that the free enterprise system is a profit-and-loss system. Point out that those who provide the tools of production are risk-takers who, in bad years, may get a low return or no return at all on their investment. Show how job security is directly related to profits: how profits earned during good years go for improvement and expansion of facilities, and how, in bad years, that profit enables the company to maintain its level of wages and job security.

Many people do not realize that companies often set aside a large chunk of profit to make up for depreciation allowances that—with today's higher prices—are inadequate to replace worn-out plant and equipment. The Worthington Corporation dramatized this story in its newsletter:

"In 1936, we bought a turret lathe for $7,400. Federal tax laws permitted us to lay aside the original cost as depreciation, at the rate of so much a year for the life of the machine. In 1959, when the lathe became obsolete, we had the $7,400 depreciation reserve to use in buying a replacement. In addition, the machine had a resale value of $1,000. But the replacement cost for a lathe that would perform merely the same function as the old model was $32,000, while a new lathe, with attachments to keep pace with technological advancements, cost $52,000. Thus, we had only $8,400 to do a $52,000 job. The difference of $43,600 had to come out of profits."

Many people, when they speak of profits, cite only pretax earnings, without mention of the tax bite that occurs before dividends are paid or profits reinvested. Owens-Corning Fiberglas put taxes and profit in proper perspective with this report to employees:

"In 1957, Fiberglas paid $2,803,000 more in taxes than it made in net profit after taxes. The company's tax bill was $11,811,000 while its net income for the year totaled $9,008,000. The Fiberglas tax bill averaged $1,226 per employee." ♦

If more companies want to make the supervisor a real manager, some outdated ideas must be changed . . .

THE FOREMAN: MAN IN THE MIDDLE?

Condensed from The Iron Age

THE KEY MAN right where industry's work gets done is the foreman. But today's foreman often sees himself in a management no man's land, undermined by superiors and mistrusted by subordinates. If management wants to make the foreman a real manager, some current ideas must be scrapped. These are the conclusions of a new study conducted by the Opinion Reseach Corp., based on interviews with 188 plant managers and 160 industrial relations executives in many of the nation's largest companies. The survey shows:

- Managers are convinced that foremen should also be managers.
- Foremen are already given the recognized symbols of management status (salaries rather than wages, pensions and other benefits, management time-off privileges).
- Foremen's top responsibilities lie in areas that plant managers consider least important (housekeeping, safety instructions, and settling grievances). Even so, they are seldom given the authority they need to get the results expected.
- Foremen have almost no influence in requesting time-study projects, starting cost-cutting action, hiring and firing workers, and preparing budgets and cost estimates.

In previous surveys, foremen said they wanted to belong to management, and only about one in ten had any desire to join a foreman's union. This year, manufacturing foremen were asked, "Should foremen be part of management, or should they be more like workers?" The answers: 67 per cent said "part of management," 9 per cent said "more like workers," and 24 per cent had no choice.

A foreman in a steel company complained, "The foremen in this plant are pushed around by the union steward, by the men, and then by management. It's bad." A paper company foreman said, "When it comes to

The Iron Age (June 2, 1960), © 1960 by The Iron Age.

authority, we just don't have any." But it's difficult to make the foreman's job more attractive, and for that reason it's equally hard to fill new openings for foremen—except in the largest operations.

Some of the reasons: The foreman's job has little distinction. The best prospects don't want to give up union security and seniority. Production workers lack the management outlook. College recruits—sometimes given a foreman's job merely as a step in their training—find the work menial and promotion slow.

Few managers think of the foreman's job as a way of developing him. They point out that most foremen have already reached their "managerial ceiling." But if the foreman isn't included in management's development plans, it's not likely that a new, better group of foremen will appear. This, in turn, will dry up a prime source of tomorrow's upper-level managers.

What can be done to turn foremen into real managers? The survey suggests that management must take some of these steps:

Redefine the job. If the foreman is really a manager, his job must be planned to give him authority over all the duties he can handle. He should have a chance to share and develop the same management ideas as other managers.

Use better selection methods. Right now, selection procedures in many companies are unrealistic. Companies often use tests that are less than satisfactory to help pick the best candidates. The main complaint: The tests don't relate very well to the job's duties.

Upgrade education. Few managers believe that foremen should be college graduates, and over one-third say formal education isn't even a requirement for foremen's jobs in their plants. Some higher educational standards must be set up.

Re-examine in-plant training. Training must be more than just developing day-to-day job skills. Its aim must be to bring out the best in trainees. The foreman's job should be the first step up the ladder—not the end of the line.

Clear up job insecurity. The foreman is the only member of management who can be bumped down into the bargaining unit. As long as the threat of being bumped back to blue-collar rank exists, it's hard for foremen to claim manager status.

Study financial incentives. Managers report that the average pay of first-line foremen and supervisors is around $7,500 a year. Compared with a top rate of approximately $4 an hour for skilled union craftsmen, the rewards of being a foreman are low.

Allow foremen to supervise more people. If salaries are raised, the foreman's job must be enlarged. The clutter of side duties must give way so he can supervise more people. Right now, some companies have foremen supervising fewer, not more, men.

Prepare gradually for the future. There are many foremen who can barely handle their present jobs. As the foreman's role changes, these men must be handled with fairness and tact. Some companies back up the less capable man with an assistant who can eventually replace him. ♦

EXECUTIVE COMPENSATION IN EUROPE

Condensed from Business Week

UNTIL RECENTLY, there wasn't much interest in the pay scales for top executives of European companies. U.S. companies with operations abroad usually sent their own people over to fill the top jobs. Lately, however, they've been finding it politic to have European subsidiaries run by Europeans. In U.S.-affiliated companies abroad recently surveyed by McKinsey & Co., the top management groups (meaning, generally, the five highest-ranking executives) are now only 10 per cent American, and only about a fifth of these companies are headed by Americans. In setting pay

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scales for European nationals, most American companies would like to be governed by the country's going rate —if they knew what it was.

In any country, top management's pay is a fairly intimate subject. In the U.S., though, the Securities and Exchange Commission has made many high-level salaries public knowledge, and various surveys have added additional information. That's not the case in Europe. Few laws require public disclosure of salary data. Even those European companies whose shares are listed on American stock exchanges ignore the subject in their proxy statements, and the SEC hasn't argued about it. The new survey sheds useful light on the subject.

In Europe, as in the United States, the pay of the chief executives—and of the five top men as a group—varies pretty consistently with company size, according to the study. For the No. 1 man, it ranges from 45 per cent to 75 per cent of the American rate in companies of comparable size. That's in terms of straight dollar equivalents, without allowances for difference in purchasing power, tax rates, or fringes.

Belgian managing directors get about two-thirds what American presidents get in similar-size companies; French chief executives, about half. British and German chief executives are paid between 50 per cent and 60 per cent as much as Americans; the comparisons are less exact because the spread between big and little companies is different. The spread is widest in Italy; there, the head of a company with $2-million annual sales earns less than half what the president of the same-size American company would get, while the chief of a $40-million-a-year organization makes 75 per cent of the U.S. rate.

In Britain, France, Germany, and Italy, the pay gaps within top management are wider than they are in the U.S. The No. 2 man in those four countries makes less than three-fifths of the No. 1 man's pay; in the U.S., he would get more than two-thirds. The American No. 5 man earns about half the top executive's compensation; in Germany, he gets only a fourth as much, and in the other three countries less than 40 per cent.

European companies differ in pay practices as well as in amounts. Britain's high tax rates lead to much more use of perquisites (even the fifth-ranking executive gets a company car in a third of the companies surveyed) and to substantial pensions. Most large British companies have "top hat" plans that usually give the retiring executive a pension of at least half, or sometimes as high as two-thirds, of his final annual income.

Belgian managing directors usually get a substantial profit-sharing bonus known as "tantième"; for lower-level executives, there is a "thirteenth-month" bonus of one month's pay. French companies sometimes pay for executive apartments. German companies may make interest-free loans for housing.

In Italy, where income taxes are often determined by individual conferences with the tax collector, cash counts for more. Pay levels are higher, at least in large companies. Expense accounts are lavish; in addition to reimbursed expenses, the Italian top executive often gets a big

expense allowance (sometimes equal to his salary) for which he doesn't have to account very strictly.

Italian executives get long vacations—an average of 30 working days a year. By law, if they are dismissed, they get severance pay (a month-and-a-half's pay for each year of service if they have been with the company ten years or more).

Throughout Europe—the survey revealed—items other than cash make up a bigger part of the executive compensation package than they do here. Such extras as automobiles, housing, and club memberships extend much farther down in the organization than they do in the U.S. Security also gets more emphasis: European executives are seldom fired. Cash is played down—partly because income tax rates are generally higher, and partly because of the predominance of family-owned or tightly controlled companies. Both factors contribute to a lack of executive mobility.

As a result, European companies haven't given much thought to compensation as a means of attracting or retaining executives—or motivating them to do a better job. Raises and promotions are based chiefly on seniority. Bonuses are less common than in the U.S.; where they are paid, they tend to be a fixed percentage of salary instead of being based on performance. There's little effort, either, to give managers a proprietory interest in the company; stock options are rare.

But executive turnover is gradually increasing. In some countries, rapid industrial expansion has created a shortage of executive talent. And American companies are beginning to raid native companies. Europeans may not be content much longer to take the credit and let the cash go. ♦

Communications: Huh?

BUSINESSMEN trying to get their ideas across often have a sneaking suspicion that they and their employees don't really speak the same language. And the Opinion Research Corp., of Princeton, N. J., recently concluded that the executives are often right, reports *Newsweek.*

ORC interviewed nearly 500 workers to test their reaction to certain words management often uses. "Employee benefits," it found, meant something to 82 per cent of those interviewed, and the workers responded favorably to the term. But only 54 per cent understood a similar expression, "fringe benefits"; only 54 per cent knew the meaning of "mass production"; only 26 per cent knew what "hidden salaries and wages" meant. "Strike" called to mind a necessary means to an end; "work stoppage" was condemned as unfair and harmful.

To many workers, "corporation" carried overtones of money, power, and selfishness; "company" drew a more favorable response. More than half (55 per cent) were familiar with the word "capitalism," but only 26 per cent could explain what it meant. A more popular substitute: "Free enterprise." The survey also found that only 12 per cent of the workers read and understand the average article in a company publication.

BRIEF SUMMARIES
of other timely articles

GENERAL

THE FORTUNE DIRECTORY (Parts I and II). *Fortune* (Fortune Directory, Room 2063, Time and Life Building, New York 20, N.Y.), July, 1960 and August, 1960. Reprints gratis. 1959 was a banner year for business both at home and abroad, according to the *Fortune* directory of the 500 largest U.S. industrial companies, the 100 largest foreign industrial companies, and the 50 largest U.S. commercial banks, life-insurance, merchandising, transportation, and utility companies. A listing of the companies according to rank includes 1958-1959 statistics for each in such areas as amount of sales and profits and shows the U.S. to be somewhat in the fore—the overseas companies increased their sales by 8 per cent and their profits by 19.3 per cent, while in the U.S., sales went up 11.6 per cent and profits 25.1 per cent.

A STRUGGLE TO REWARD GOOD EXECUTIVES. By J. Grant MacDonnell. *California Management Review* (Graduate School of Business Administration, University of California, Los Angeles 24, Calif.), Spring, 1960. Reprint price on request. Because current high tax rates scoop the cream off executive salaries, business is faced with the problem of finding new ways to offer incentives to attract or retain competent management. Although there is no one solution fashioned to meet all conditions, this article evaluates the most widely used ones—bonus or profit sharing, deferred pay plans, pension and retirement plans, stock bonus and stock options, employment contracts providing for payment after retirement, life insurance plans supplying greatest protection at times of greatest need, and investment trust programs.

STATE TAXES THREATEN U.S. COMMON MARKET. By Paul Studenski. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), July/August, 1960. Reprints $1.00. Businessmen have gone before the Supreme Court to test the constitutionality of some state laws that applied corporation income taxes to out-of-state corporations merely engaged in the solicitation of orders within the state. The author gives a blow-by-blow account of two 1958 test cases, discusses current federal legislation designed to preserve free trade between states, and calls for Congress to take these two steps: (1) Establish the conditions under which state commerce can be taxed by the state, and (2) develop a broad formula of apportionment of corporate income for all states to follow.

ROADBLOCKS TO PROGRESS. By Thomas Kenny, Melvin Mandell, and Joseph R. Marshall. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), June, 1960. 75 cents. Despite heavy spending for improved transportation facilities during recent years, the cost of moving products is eating up a larger share of industry's sales dollar than ever before, according to a new survey of transportation policies and practices in manufacturing companies of all sizes. It pinpoints spe-

cific problems and reveals what management is doing and can do to speed shipments and cut costs: The respondents found rate negotiations to be the area in which they had realized the most savings and emphasized the need for improved coordination of traffic with production planning and sales policies.

MARKETING

GUIDES TO MARKETING PLANNING. By Victor P. Buell. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), July/August, 1960. Reprints $1.00. Although there are many books and articles on the separate elements of marketing, little is written about marketing planning designed to coordinate the over-all functions, the author says. He reviews some leading books and articles on the subject and points out the need for a new book that would encompass the following areas: organizational aspect of planning; principles that should be followed; coordination of planning with line and other functions; profit-maximization concept; and utilization of mathematical programing and electronic computers in marketing decision-making.

SURVEY OF BUYING POWER. *Sales Management* (630 Third Avenue, New York 17, N.Y.), July 10, 1960. $5.00. An extensive survey of buying power in the U.S. and Canada resulted in this 814-page report, which covers detailed information on the following topics: new features of this year's survey; how the survey is used to determine sales and advertising quotas; U.S. population-income data and retail sales data for every state, its counties and cities; farm data for 600 leading U.S. counties; population-income and retail sales data for Canadian provinces, counties, cities; rankings of leading counties, cities, and metropolitan areas in population and sales categories; summaries of all data for each section of the U.S.

FOREIGN OPERATIONS

A GROUND RULE FOR FOREIGN BUSINESS OPERATIONS: DON'T PUT ALL YOUR EGGS IN ONE BASKET! By Gerhard G. Mueller. *California Management Review* (Graduate School of Business Administration, University of California, Los Angeles 24, Calif.), Spring, 1960. Reprint price on request. The argument for broad overseas operations in a number of countries, rather than a single operation in just one, is most compelling in the area of foreign exchange: The risk arising from unexpected devaluation of any one currency is distributed among a number of possible sources. Moreover, the diversified approach makes for optimum production conditions, since some countries can supply special skills at low costs, others have particular raw material resources, and still others have special facilities.

SCHEDULE OF INTERNATIONAL TRADE AFFAIRS. *Foreign Commerce Weekly* (Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.), July 4, 1960. 15 cents. Of the trade fairs listed for cities throughout 34 countries in the Near and Far East, Australia, Africa, Europe, and the Western Hemisphere, the U.S. has the greatest number (56) scheduled, and Great Britain, with 35, is runner-up. Classified according to country, city, name, type, date, and management, most of them are scheduled for 1960, and are widely dissimilar; of three fairs opening on the same day in London, for example, one is a business efficiency exhibit featuring office equipment, one is an antique dealers fair, and the third is an international cycle and motorcycle show.

FINANCE

PLAYING THE FOREIGN MONEY MARKET. *Business Week* (330 West 42 Street, New York 36, N.Y.), July 16, 1960. 50 cents. Although many U.S. companies prefer to keep their cash close to home rather than risk it in the swift currents of international money movements, more and more of them are shifting funds from one financial center to another to take advantage of higher yields. Reports on the overseas financial operations of American Metal Climax, Inc., show how this company—unusual in having its own foreign exchange trader—maintains a large inflow of dividends from abroad. The article also describes the market in terms of money flow, explains how central banks keep prices in line, and divulges some tricks traders use to get maximum return on the short-term funds.

BUDGETS FOR MANAGEMENT. By J. H. Hennessy, Jr. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), May/June, 1960. Reprints $1.00. A sampling of current practices in budgeting in almost every kind of business unit uncovered three major weaknesses: (1) a superficial appreciation of basic budgeting concepts on the part of many managements; (2) inadequate or inappropriate procedural techniques, particularly for variance analysis; and (3) the absence of a disciplined environment in many corporate organizations. In a discussion of how to correct these weaknesses, the author points to leading books and articles that explore, in detail, various concepts of budgeting.

THE STOP ORDER. Published by the New York Stock Exchange and member firms (11 Wall Street, New York 5, N.Y.). Reprints gratis. Of particular interest to those who have been experimenting with the Darvas method of investing in stocks, this pamphlet discusses the advantages and limitations of the stop order. The stop order may be used to protect a profit or limit a loss, but the protection cannot be guaranteed 100 per cent. A case in point: You tell your broker to sell 100 shares of XYZ at *50 stop;* the price of XYZ declines to $50 and your stop order automatically becomes a market order. But if the only bidder around at that time happens to bid 49, your broker must sell at that price because it is the best he can get. Also discussed is *stopping stock,* which is sometimes confused with the stop order but is actually an entirely different procedure.

INDUSTRIAL RELATIONS

WHY THE NEW TRENDS IN PENSION PLANS? By Ralph W. Hemminger, *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), July, 1960. Reprints 50 cents. An outdated, "second best" pension plan can cripple hiring efforts and increase turnover. For the company that wants to measure its pension plan against current practices, these results of a survey of 230 firms in 114 different industries provide trends and facts in the following areas relating to pension plans: employee coverage, eligibility requirements, employee contributions, normal retirement age, early retirement, disability retirement, vesting, pension benefits, and method of funding. For a quick check, trends in these areas are summarized.

HOW TO MAKE THE COMPANY CAFETERIA PAY OFF. *Industrial Relations News* (230 West 41 Street, New York 36, N.Y.), June, 1960. $1.00. Roast goose à la Bohemia. English plum pudding flambé. Scandinavian egg nog. These exotic dishes, recently featured on a company cafeteria menu in Chi-

cago, manifest a growing trend on the part of management to make the employee's lunch hour a satisfying experience. This article explores benefits—both to employees and management—of industrial restaurants, and quotes specific companies on such questions as how far to go in subsidizing employees' meals, whether to open the cafeteria for breakfast, the effect of vending machines on employee morale, and the advisability of establishing separate executive dining rooms.

RETIREMENT FROM THE VIEWPOINT OF A MEDICAL DIRECTOR. By William P. Sheppard, M.D. *Industrial Medicine and Surgery* (P.O. Box 44-306, Miami 44, Fla.), July, 1960. $1.25. Does retirement from industry at a given age really militate against a happy and healthy old age? The author, who doesn't think so, gives reasons for a fixed retirement rule in industry and traces the increase in major pension and retirement programs in the U.S. in recent years. He argues, moreover, that industry should be allowed to continue to plan for the needs of the retired without legislative intervention, and recommends management-sponsored hobby classes after working hours—to stimulate outside interests that will stand workers in good stead during retirement.

THE ALL-AMERICAN BOY. By Harry R. Knudson. *Personnel Journal* (Swarthmore, Pa.), June, 1960. 75 cents. Typical college recruiters are out to hire the All-American Boy (upper quarter of his class, fine activities record, some working experience, possibly captain of the football team), but too often, companies do not have many current or future positions that require the services and capabilities of the top graduate. Results of a recent study of college recruiting practices show that a company can pave the way for a satisfactory and satisfied working force—if it recruits only the number of outstanding graduates it needs for a potential management pool and relies on "average" graduates for more routine or limited jobs.

PRODUCTION

SAFETY IN MATERIALS HANDLING. By W. J. Byrne. *Mechanical Engineering* (29 West 39 Street, New York 18, N.Y.), July, 1960. 50 cents. Industrial accidents carry a heavy price tag—$500 million a year—and the largest single source of them is materials handling. A major reason for the high incidence of accidents in this area is organizational, in the view of the author, who says most companies mistakenly place safety activities under the personnel or industrial relations department, rather than under methods engineering or production. He recommends the use of methods engineering tools—process charts of materials-handling cycles, layouts of production machinery, and studies of space and handling requirements—in gathering operational data to be analyzed for conditions that make for potential injuries. Questions to ask in making the analysis are listed.

NUMERICAL CONTROL. By J. H. McRainey and L. D. Miller. *Automation* (Penton Building, Cleveland 13, Ohio), August, 1960. $1.00. Are numerical controls feasible? Economical? Where can they be used to best advantage? Answers to these and related questions about the practical application of numerical controls can be found in this article, which traces progress in control technology since the prototypes of ten years ago. Also provided are a five-point checklist to consider in planning for numerical control and lists of its applications, its basic functions, problem areas for management, future types of application, and companies active in developing numerical controls.

The Changing Image of Labor

(*Continued from page* 8)

manufacturing and service payrolls. These people earn middle-class incomes and, status symbols aside, they are not anxious to endanger their mortgaged suburban split-levels by rushing to the barricades every time an international union leader gives the nod. The organizational techniques of labor, including the sloganized propaganda attacking management, simply doesn't ring the bell. The employees at whom it is directed just aren't interested in being drafted in an out-of-date class war—which they may very well feel is being directed against them. Prosperity itself has trumped labor's ace—industrial discontent—by deproletarianizing the "common man."

Labor leaders like Walter Reuther understand this. They know that the future of unions depends more and more on their ability to attract the white-collar worker. They also realize that the middle class instinctively avoids violence, and that unions must change the impression they make on the public mind or lose influence in public affairs. Reuther himself has stated that labor must revise its thinking and change with change or suffer the consequences of obsolescence. He knows that the white collar is not yet the union collar, nor is it likely to be unless labor can overcome the social snobbery and social conservatism that accompany going to work in a business suit.

Identification of the problem and the solution of it are two different things. Reputation is difficult to change. Though labor may soft-pedal its pitch to win the white-collar vote, the violence of the thirties is too recent to be entirely forgotten—and Mr. Hoffa doesn't help matters a bit. And the fact that a strike is called an "economic sanction" by a union agent who calls himself a labor executive doesn't make it any less uncomfortable for those who might be called off their jobs.

But you must give unions, or at least some of them, "A" for effort in changing their white-collor organizational techniques. Anybody who heard the televised organizational propaganda of the Communications workers in their recent east coast drive for more members will admit the *sotto voce* line it used was a far cry from the old "give the boss hell" approach of a few years back. You might almost have

felt that you were being asked to sign up, not for a union, but for the Union League Club. Sociability, not social awareness, was emphasized. And the announcer concluded with the advice, "Join the prestige union in a prestige industry."

Nevertheless, except in service industries, banks, or insurance companies where there is no manufacturing work force, or in metropolitan areas where the union tradition is strong, labor has not yet made any appreciable inroads in the white-collar field. It is unlikely that it will, either, unless industry somehow muffs the ball. The reason: Its sales argument is weak. The non-union white-collar employee understands full well the tandem relationship of his salary and fringe benefits with the wages and other inducements given to shop employees. Though unions may argue that he is a free rider, the point is likely to make small impression. He can reply with unanswerable logic: So is everybody else, except for the fellow living on a small pension, the schoolteacher, or persons employed outside the main stream of business progress.

THE DESERTION OF THE INTELLECTUAL

Perhaps the cruelest thorn in the side of contemporary labor is the fact that it is no longer as fashionable intellectually to be pro-union as it once was. Dr. George Odiorne of the University of Michigan recently commented that intellectuals were deserting labor. The reason, he says, is that the intellectual has lost his sympathy for union because today's rich and powerful labor organizations have lost sympathy for the underdog.

"The people," continues Dr. Odiorne, "in real economic need today are not the union members but the farm laborer, the service employee, the lower level of white-collar worker, the retired annuitant. Without a reconstructed philosophy of unionism that reaches out to include these people, the alienation of the intellectuals will continue. Within the decade we may well expect that many of these will turn on unionism and attack the very body they once worked to support."

Dr. Odiorne's observation is undoubtedly accurate. But he need not worry about any reluctance on the part of labor to reconstruct its philosophy if that is the only way to take in new people. From the statements of union spokesmen, labor is even now developing

plans to include the farm laborer, the service employee, and the lower-level white-collar worker. Doubtless, too, if labor could come up with the right plan, it would be happy to take in the retired annuitant and accept part of his small stipend as dues in payment for bargaining with government for higher pensions. But whether even such a "reconstructed philosophy" would please the intellectual is another question. For if such a development became reality, labor would be an even stronger monopoly—and if the intellectual still distrusts the accumulation of economic power, this should make him sadder than before.

LABOR POWER—AND A CHANGING CLIMATE

Despite labor's very real difficulties, despite the fact that its membership has declined by 500,000 during the past two years, unions still have tremendous power. As things stand now, they are in little danger of losing it, at least in the immediate future.

The growing anti-union attitude of the public is not necessarily being translated into a pro-management sentiment. Furthermore, unions have built-in political support (union-shop control over members) and are protected against temporary outbursts of public anger by a barrier of favoring laws. Moreover, unions give strong backing to welfarism, and, from the voting record, a majority of Americans favor welfare benefits. Since the two major political parties, especially in industrial areas, have embraced this philosophy, it is very difficult for the voter to express his displeasure at organized labor, even if he wants to. Politicians, particularly those who benefit from labor's campaign contributions, are in no hurry to cut off this source of revenue.

Although many voters, including union members, may object to the control that labor exercises over their private lives, they don't object strongly enough to back an anti-labor political candidate who, they fear, might also cut down on government welfare spending. In short, the labor leader doesn't present a clear target at the polls; the voter can't shoot at him without the risk of hitting a friend.

However, these conditions are gradually changing. Labor's quick and sometimes ruthless use of its economic power in strikes has caused resentment, even among its own rank and file. Samuel Lubell, in taking opinion polls prior to the steel strike, reported that

Steelworkers frequently expressed the opinion that the government should adopt some form of compulsory arbitration to prevent the financial hurt of union-ordered idleness. Indeed, if the government had not imposed a settlement in that industry before the Congress convened, the chances are that public discontent would have forced the passage of some sort of law that would provide for compulsory settlement of national emergency labor disputes.

Another factor contributing to the growing opinion that government should take an even greater responsibility in labor-management relations is the growth of the white-collar group. This has great significance for the union movement. Traditionally these people look to government to settle their problems, a fact which is perhaps indicated by their resistance to labor's organizational attempts.

The implications of this changing public and employee attitude should be evident to labor leaders and to the more farsighted politicians. If unions fail to organize the white-collar worker, if a majority of the public wants a welfare-minded government, but still one that will firmly regulate union power, the wall of laws that now protects labor will come tumbling down. Unions will learn the hard lesson that there is nothing more worthless to a politician than a former friend who has become a bit embarrassing.

It takes a crisis to make issues clear. Usually the people are ahead of their leaders in anticipating change, but they take no positive action to bring it about as long as they are comfortable. Although there was considerable dissatisfaction with the business administrations of the 1920's, while things went well nobody voted for a change. With the depression, the change came; people voted to accept it, and the New Deal improvised its way to social revolution.

What the next crisis will be cannot be accurately predicted, but whenever things change for the worse, the group in power takes the rap. Labor has now had the ball for a long time. A welfare government would hardly hesitate to put controls on labor if politicians thought that this was what the voters wanted.

PROBLEMS AND PORTENTS

Labor leaders, by their own admission, are stuck hip deep in the mud. Their influence is declining, and they don't know what to do about it. Membership is dropping, and they must change their

methods if they hope to win the white-collar employee. The trouble is, they haven't found the method.

Unions are even having difficulties with each other. Despite the AFL-CIO merger, there are still fierce jurisdictional disputes that sap much of labor's strength and money. Worse of all from the point of view of union leaders, politicians are becoming more middle-of-the-road.

"After the passage of Landrum-Griffin," one union president complained bitterly, "we don't know who to trust. If our friends did this to us, what will our enemies do? Why, labor is becoming a political orphan."

On top of all this, the collective-bargaining climate is changing. Stiff competition at home and increased rivalry in both world and domestic markets have forced management to tighten up on efficiency. Instead of merely trying to hold down the score in negotiations, companies are now proposing contract changes of their own to secure greater operational effectiveness.

All this is new and confusing to labor. Worry over the unhappy management-labor climate induced George Meaney to request the President to sponsor a meeting of top managment and labor officials. The Administration went along with the idea, but the first labor-management summit conference wasn't notable for any substantial progress; in fact, labor complained that industry didn't even send its first team. In any event, it is unrealistic to expect meetings to produce very tangible results. The more usual product of such convocations is a package of platitudes, and the problems of labor are too deep-seated to be ironed out by high-sounding generalities.

Unions have had things their own way for so long that they have grown accustomed to it. They consider any proposal that does not originate on the labor side of the bargaining table as a threat to union power and attack it—not on the basis of its merits or necessity, but with high emotionalism—as an attempt to "destroy labor." But this song is getting a little tired. It has been sung too long, and people know it by heart. They also know that management is too intelligent to try to destroy labor, that in attempting to win higher operational efficiency, it is trying to remain competitive—and sometimes even to save the company itself.

Unions, if they wish to develop with the future, cannot force the

economy to remain in a state of suspended evolution just because they had it so good in the thirties and forties. Business learned a lesson from the depression; it has developed sound, practical, and enlightened methods for dealing with employees. If labor fails to learn a similar lesson from prosperity, it may discover, as business did 30 years ago, that those who don't change with the times must suffer the consequences. ♦

"We're leaving our great-grandchildren something to remember us by—the national debt!"

SURVEY OF BOOKS FOR EXECUTIVES

The Darvas Effect

HOW I MADE $2,000,000 IN THE STOCK MARKET. By Nicolas Darvas. American Research Council, Larchmont, N.Y., 1960. 178 pages. $4.95.

*Reviewed by Burton Crane**

If I could review this as a work of fiction I'd feel more comfortable. I might then remark that Nicolas Darvas had been living in that investor's daydream called If I Only Had. In a work of fiction, the little discrepancies would not bulk so large. We might let them pass with the observation that the arm of coincidence had had a helluva workout on a medieval rack.

But this is a book that has to be taken seriously, if only because of the influence it has had on the speculating public. Ever since it appeared, those of us who cover the stock market have been noticing "the Darvas effect." Apparently scores of thousands have read *How I Made $2,000,000* and have tried to follow where Mr. Darvas led.

* Financial writer, *The New York Times.*

After all, his techniques are simple, at least on the surface: picking stocks that have been making new highs on impressive volume (provided they are in industries on which the public has or is developing a schoolgirl crush); letting profits run but taking losses promptly, using a device that Mr. Darvas calls "the trailing stop-order"; and pyramiding—buying more stock with the equity created by paper profits.

There is nothing new about any of these devices—speculators have been using them all since about the time of the War Between the States—but what made them so impressive was the almost fictional style of the Darvas presentation. As a result, everybody began trying to use the "trailing stop order." The idea here is easy to grasp: You buy a stock at, say, 40 and put in an order to sell it if it ever dips back as far as, say, 36. Your broker leaves this conditional, automatic stop-loss order with the "specialist" in the stock, the man who makes the market. If the stock should sell as low as 36, your order is "elected," that is, it becomes a market order. This means that the price will be dropped progressively, with other

touched-off stop-orders and outside market orders, until enough buy orders to reestablish equilibrium have appeared. Hence, the market might drop 2 or 3 or more points below your stop before you get out.

The Darvas plan was to have stop orders follow the stock up as it rose. If it went to 46, he might place the stop at 41. At 50, he would raise it to, say, 44 or 45.

Within a month of the book's publication, "the Darvas effect" was already strongly in evidence. Apparently, stop orders were massed in certain active stocks. Let one of them slip a point or so and it tumbled, one stop order setting off the next below it, and so on. In the words of Wall Street, "the amateurs were getting their brains kicked out."

The moral is that stop orders are bad medicine when too many other people are using them. I am in no position to be superior about this, because my own book, *The Sophisticated Investor,* recommended the trailing stop for small players virtually in the Darvas terms. For the seventh printing, we are patching the plates and changing the signals: Don't place your stop orders with your broker, but with yourself. Then, if your stock *closes* at or below your "mental" stop price, phone your broker the next morning and sell out at the market. This technique was devised by John Magee, the Springfield, Mass., investment advisor.

The Darvas trailing stop-order plan presents another great difficulty—the tax angle. If the book tells all the story, and if I read it correctly, time after time Mr. Darvas let himself be sold out on an exceedingly profitable trade for a short-term capital gain when a long-term gain was not far away.

I have mentioned this to business friends and have received the comforting reply: "Oh, he's probably not an American citizen and he says himself that a lot of his trading was done abroad. He didn't have to worry about taxes."

Unfortunately, this is not true. Alien or citizen, if a speculator makes in the United States the *sale* by which a gain is realized, he is liable for United States income taxes. There is, of course, a way for an alien to get around this: He sells abroad. But Mr. Darvas says expressly that he did not do this. His trailing stops involved selling by his broker—his agent—*here.*

Near the end of 1958, he says, his profits were $319,000, what remained of the short-term profit he had made in trades in Lorillard, Diners' Club, and E. L. Bruce. "The first step I took," says Mr. Darvas, "was to withdraw half my profit from the market." For taxes? He doesn't say, but a bachelor such as Darvas—even if he had had no other net income—would have needed not $160,000, but $270,660. Apparently Mr. Darvas never even considered hanging on a little longer in order to pay a 25 per cent instead of a 91 per cent tax.

In a work of fiction, this would be called a serious plot weakness. In a work of fact, I don't know what to call it. Can this be the only successful market player of our day who did *not* trim his trades to fit the tax laws?

One more thing: In the *Time* story of May 25, 1959, Mr. Darvas was reported as having said that he owed all his knowledge to reading and re-

reading two books—Gerald M. Loeb's *The Battle for Investment Survival* and Humphrey B. Neill's *Tape Reading*. *The Battle* promptly went into a couple of new printings. Mr. Neill's 1931 work was given some fresh footnotes and reissued.

Yet *How I Made $2,000,000* makes no mention of either book, and the Darvas methods are not those of either Loeb or Neill. In fact, the only time Mr. Darvas ever tried to be a tape reader, he says, he almost lost his shirt.

Regardless of these quibbles, you'll enjoy the book. It ought to make a good movie.

Rogues' Gallery

THE OPERATORS. By Frank Gibney. Harper & Brothers, 49 East 33 Street, New York, 1960. 284 pages. $3.95.

*Reviewed by S. D. Astor**

Roguery has always been lightly regarded in this country. The biography of a rogue invariably makes a fascinating profile for the *New Yorker* and an equally entertaining script for a half-hour television program. Even our courts of justice are more amused than alarmed by con men.

Mr. Frank Gibney, author of *The Operators*, is not so amused. Indeed, he is profoundly disturbed by the "habit of fraud [that] is growing upon us." He calls us all members of a Genial Society who are more than willing not only to wink at the next man's transgressions but, indeed, to participate in them.

The Operators begins with an account of a day in the life of a typical executive who has broken enough laws to make him liable to a total fine of $31,500 and 33 years in jail. If the reader is initially amused by this fact, he is likely to be subsequently overwhelmed by the data that Mr. Gibney proceeds to bring together in support of the thesis that we may well be winking ourselves out of existence. Systematically, he takes us through the sorry tale of frauds that are daily being perpetrated in retail advertising, patent medicines, the stock market, real estate schemes, expense accounts, income tax reporting, and finally in the government itself. The book is crammed full of fascinating stories, well documented. And all of them point again and again to the conclusion that "the habit of fraud is indeed growing upon us."

As Gibney notes, these frauds clearly could not succeed unless their dupes were equally eager to make a fast, dishonest dollar themselves. Indeed, it is the oldest maxim of the trickster that "You can't cheat an honest man." And since it would appear that all of us are being cheated each day or are doing some cheating ourselves, we must, like Diogenes, light our lanterns in a renewed search for an honest man.

Our methods of communication and education, it seems, have backfired. As the author comments, "Where the gallus-snapping hawker

* President, Management Safeguards, Inc., New York.

could get only a passing carnival audience for his snake oil . . . the modern medicine operator can put his product in front of millions instantly by every device of modern communications." Furthermore, the barrage of advertising has created what he calls "Pavlovian salivations"—automatic responses to such slogans as "government approved," "medically tested," and "doctors say." Somehow, the Genial Society feels that the government is protecting it against someone else's fraud, whereas the regulatory or protecting agencies have in fact very small budgets that enable them to perform only a small part of their intended functions.

In a chapter entitled "Good Men Gone Wrong," Gibney points out how easy living and the Genial Society have seduced even pillars of the community into becoming "operators." It was Clarence Darrow who observed, "Man cannot be classified as honest or dishonest. He goes along with the game of life and can stand a certain pressure for the sake of his ideals, but at a certain point, he can stand no more." Apparently, the pressures are upon all of us to compromise our ideals in the interests of wealth and comfort—and if even community pillars fall, we are surely all vulnerable.

Our trouble, Gibney says, is that we have no national ethic. We have distorted the Puritan worship of "industry" into a worship of "business," and have thus justified business as an end in itself.

The Operators is a fascinating and well-written book that should be of interest to every thoughtful business executive. Certainly, were it to be found in a time capsule centuries hence, it would constitute a devastating comment on life in America at the mid-twentieth century. The efforts of every one of us should be directed toward making *The Operators* no more than an amusing vignette of a transient episode in our nation's history.

Briefer Book Notes

(Please order books directly from publishers)

FINANCIAL MANAGEMENT

MERGER MOVEMENTS IN AMERICAN INDUSTRY, 1895-1956. By Ralph L. Nelson. Princeton University Press, Princeton, N.Y., 1959. 177 pages. $5.00. The chief empirical contribution of this book is its comprehensive statistical study of industrial and mining mergers occurring between 1895 and 1920. The analytic contribution is twofold: the author examines the data for the period 1898-1902, testing current theories about the causes of this first, and most important, of the three great merger waves; and, using both the newly collected data and previous studies, he correlates merger movements with business cycles throughout six decades.

ORDINARY AND NECESSARY EXPENSES. By William K. Carson and Herbert Weiner. The Ronald Press Company, 15 East 26 Street, New York, 1959. 250 pages. $10.00. The authors, accountants specializing in tax problems, discuss criteria for classifying deductions as ordinary and necessary expenses, apply them to some 20 categories of expenses, and analyze several significant court decisions. They also suggest the steps that should be taken by executives, investors, and tax men in planning taxes and substantiating deductions.

ESSENTIALLY EQUIVALENT TO A DIVIDEND. By Paul D. Seghers, William J. Reinhart, and Selwyn Nimaroff. The Ronald Press Company, 15 East 26 Street, New York, 1960. 332 pages. $10.00. A thorough-going treatment of the question, "When can a corporate distribution to or for the benefit of a stockholder be considered 'essentially equal to a dividend' and taxable as such?" The authors review the history of the relevant statutory provisions, discuss principles that have been evolved by the courts, summarize every representative published case, and offer practical advice on tax planning. All regulations and cases are indexed for easy reference.

ACCOUNTING FOR STOCK OPTIONS. By Daniel L. Sweeney. Bureau of Business Research, School of Business Administration, The University of Michigan, Ann Arbor, Mich., 1960. 228 pages. $5.00. An attempt to establish a logical and realistic concept of executive stock options from which an accounting procedure can be devised that shows the effects of this arrangement upon the corporation. The available material on stock options is examined in terms of stated and implied objectives and of the actions taken by those participating in the contracts.

MANAGEMENT AUDIT REPORTS. By James J. Hickey. Kevmar Publications, Stratford, Conn., 1958. 137 pages. $20.00. A highly detailed case study in the form of 53 reports submitted by a management consultant to the company president. The emphasis throughout is on improving operating techniques, eliminating excess costs, and establishing sound management controls. Also included are a 183-item management check list and a form for evaluating monthly operating performance.

MERGERS AND THE CLAYTON ACT. By David Dale Martin. University of California Press, Berkeley, Calif., 1959. 351 pages. $6.00. An analysis of the economic background and the legislative and administrative history of Section 7 of the Clayton Act and of the Celler-Kefauver amendment to it. Exploring the economic implications of the 1950 act, which substantively altered the provisions of the original, Mr. Martin shows how a new policy on corporate mergers is being developed.

STUDIES IN COMPANY FINANCE. Edited by Brian Tew and R. F. Henderson. Cambridge University Press, 32 East 57 Street, New York, 1960. 305 pages. $6.50. An analysis of the annual reports published in the period 1949-1953 by 2,549 British companies—almost all those engaged in manufacturing, building, or distribution whose shares were listed on U.K. stock exchanges. In the first half, the two editors and Dr. S. J. Prais examine the reports in terms of dividend policy, self-financing, capital issues, and the like. In the second half, five other economists study particular industries—construction, electrical engineering, retailing, and so forth.

ACCOUNTING: A MANAGEMENT APPROACH. (Revised Edition.) By Thomas M. Hill and Myron J. Gordon. Richard D. Irwin, Inc., Homewood, Ill., 1959. 543 pages. $8.40. This introductory text for the non-accountant emphasizes the *why* rather than the *how* of accountancy. Professors Hill and Gordon have altered the scope and organization of the first edition, by Robnett, Hill, and Beckett, to give more attention to the use of accounting data in planning and control.

CORPORATE FINANCIAL MANAGEMENT. By Raymond P. Kent. Richard D. Irwin, Inc., Homewood, Ill., 1960. 851 pages. $9.00. A text concerned primarily with decision-making in corporate and business finance. Among the subjects covered are finance functions and cash flows, asset management, cash budgeting and control, financial structure, and financing with stock, retained earnings, and bonds.

EFFECT OF THE CORPORATE INCOME TAX ON INVESTMENT. By George Terborgh. Machinery and Allied Products Institute and Council for Technological Advancement, Washington 6, D. C., 1959. 21 pages. $1.00. This research study documents fully the effect of the corporate income tax on business investment. The main emphasis is on the consequences of the tax being "shifted" to the consumer in the form of higher prices.

HOW PUBLIC FINANCING CAN HELP YOUR COMPANY GROW. By Maxwell J. Mangold. Pilot Books, 42 West 33 Street, New York, 1959. 36 pages. $5.00. This book outlines the advantages of selling stock to the public and tells how a privately owned company can make the transition to public ownership. It includes a series of questions and answers and 25 brief case histories of public offerings.

FINANCIAL PLANNING FOR GREATER PROFITS. (AMA Management Report No. 44.) American Management Association, Inc., 1515 Broadway, New York, 1960. 152 pages. $3.75 (AMA members, $2.50). This compilation begins with essays analyzing the context and structure of corporate planning, now and in the decade ahead. Focusing on techniques and company practices, it then deals with the elements of money management and profit planning. The final article is a hypothetical case study of the development of a capital appropriations program through long-range planning.

CAPITAL, INTEREST AND PROFITS. By B. S. Keirstead. John Wiley & Sons, Inc., 440 Fourth Avenue, New York, 1959. 180 pages. $4.00. Rejecting traditional ideas about distribution and interest, the author presents a new theory requiring the distinction between three "rates of return": rate of profit, rate of yield on stock, and rate of interest. He offers empirical evidence in support of his theoretical analysis.

INVESTMENT MANAGEMENT: A CASEBOOK. By George E. Bates. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York, 1959. 433 pages. $7.75. This Harvard Business School casebook presents 47 classroom-tested cases chosen for the training they provide in analysis and decision-making. Though little effort is made to cover all aspects of investment management, most of the fundamental issues that confront the portfolio manager or investment adviser are implicit in the selections.

INDUSTRIAL ACCOUNTING. (Second Edition.) By Samuel W. Specthrie. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1959. 583 pages. $10.00. Designed for students of business, liberal arts, and engineering, this text explains the principles, procedures, and executive uses of both general and cost accounting. Where necessary, it also provides background material on business organization, business law, and finance. The contents of the widely used first edition have been rearranged, and the scope and emphasis have been somewhat changed.

OFFICE

INFORMATION PROCESSING. International Publications Service, 507 Fifth Avenue, New York, 1960. 600 pages. $25.00. These proceedings of an international conference held last summer under the auspices of UNESCO include papers on methods of digital computing, a common symbolic language for computers, automatic translation of languages, and computer techniques of the future. A summary of the lectures given at various specialized meetings is also provided.

DATA PROCESSING TODAY: A PROGRESS REPORT. (AMA Management Report No. 46.) American Management Association, Inc., 1515 Broadway, New York, 1960. 144 pages. $3.75 (AMA members, $2.50). These adaptations of the papers presented at AMA's Sixth Annual Data Processing Conference include discussions of the relation between data processing and the "management information system" concept, reports on recent technological advances, and six case studies. Also described in detail is the company-wide system used by Chrysler Corporation.

AMA CONFERENCE CALENDAR

SEPTEMBER - NOVEMBER, 1960

DATE	CONFERENCE	LOCATION
Sept. 26-28	Fall Personnel Conference	Statler Hilton Hotel New York
Oct. 17-19	Special Administrative Services Conference	Roosevelt Hotel New York
Nov. 9-11	Fall Insurance Conference	Drake Hotel Chicago

To register or to obtain additional information on any of the conferences listed above, please contact Department M9, American Management Association, 1515 Broadway, New York 36, N.Y.

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A Briefing Session for Non-Technical Business Executives

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Q&A on AMA

Q. *A number of people in our organization receive material from AMA. Some get the Association's publications—periodicals, bulletins, reports and studies—in addition to announcements of forthcoming meetings. Others receive only meeting announcements. Why is this so?*

A. AMA's publications are sent regularly to enrolled members of the Association—those who hold personal memberships as well as those who appear on the roster of their company's membership. Enrollment as a member is the surest way to stay continuously up-to-date on the best of current thinking and practice in both the broad phases and the specific functional areas of management.

The Association maintains an additional list of individuals who, although not enrolled as members, have indicated interest in AMA's meeting program. These people receive selected announcements of forthcoming sessions. From time to time, outside mailing lists are used which cannot be checked against AMA's own lists. Such mailings may reach new people in your organization or may, occasionally, duplicate previous mailings.

Information on becoming an enrolled member of the Association can be secured from AMA's Membership Department.

If you have any questions about AMA's program or policies, please submit them to AMA's Member Relations Department. All inquiries will be answered promptly. Those questions of most general interest will appear in this feature in subsequent issues of *The Management Review.*